County of San Diego

Operational Plan
Fiscal Years 2004-2005 & 2005-2006

Board of Supervisors:

First District	Greg Cox
Second District	Dianne Jacob
Third District	Pam Slater-Price
Fourth District	Ron Roberts
Fifth District	Bill Horn

Walter F. Ekard
Chief Administrative Officer

Donald F. Steuer
Chief Financial Officer

"Supporting Kids, the Environment, and Safe & Livable Communities"

GOVERNMENT FINANCE OFFICERS ASSOCIATION

Distinguished Budget Presentation Award

PRESENTED TO

San Diego County

California

For the Fiscal Year Beginning

July 1, 2003

President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to **San Diego County, California** for the Annual Budget beginning July 01, 2003. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. We believe our current budget continues to confirm to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

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County of San Diego

Board of Supervisors

Dianne Jacob
District 2
Chair

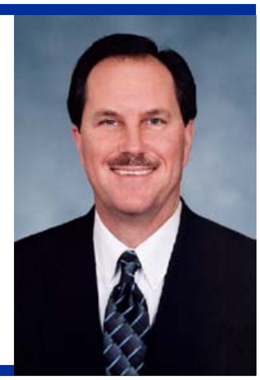
Pam Slater-Price
District 3
Vice Chair

Ron Roberts District 4

Bill Horn District 5

Greg Cox District 1

Message from the Chief Administrative Officer



Like all California counties, San Diego County has been hit by the State of California's ongoing budget problems. The State of California's Fiscal Year 2004-05 budget shifts $27.5 million from the County of San Diego's property taxes to schools in Fiscal Year 2004-05 and Fiscal Year 2005-06. As counties again bear a significant portion of the burden of the State's fiscal mismanagement, San Diego County must manage a number of challenges to meet our obligations to our primary constituents - the taxpayers and residents of San Diego County.

This Operational Plan recognizes the difficult choices that must be made as we cope with reduced revenues, continued State mandates that deny us the local flexibility we need to meet local needs and the continued growth of expenses and caseloads in mandated programs, for which sufficient funding is not provided.

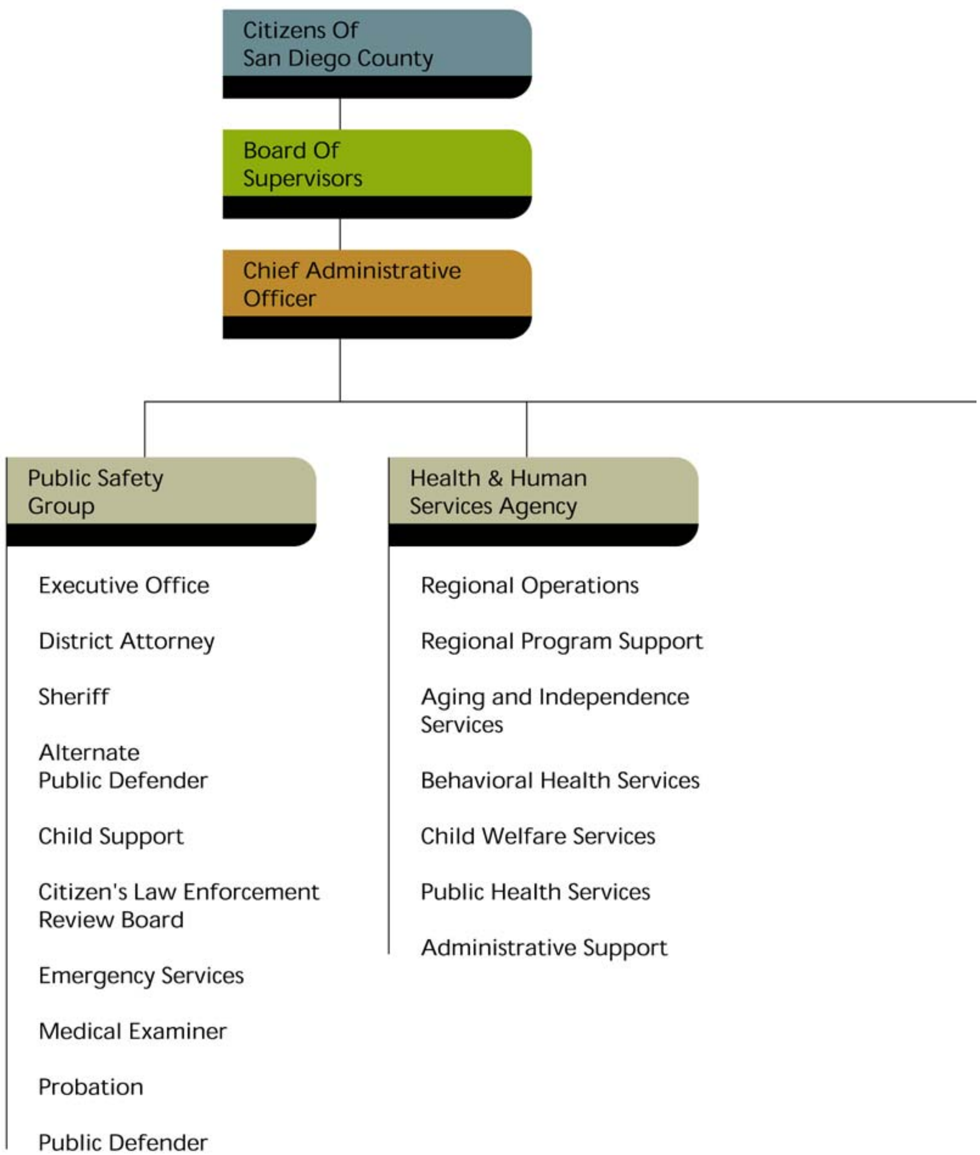
It is fortunate that our organization has been preparing for this circumstance for the past several years, and has the strong fiscal disciplines of our General Management System in place. Through prudent management of finances and vacancies, we have been able to reduce the negative impacts significantly from what they could have been. Also, our continued commitment to innovation and continuous improvement provide the foundation from which we will examine new ways to maximize services to citizens, through managed competitions, reengineering or other process improvements.

Nevertheless, it is important to note that this year's Operational Plan differs in several ways from those of past years. Some services have been reduced from previous years and our organization will need to adjust to shrinking revenues by concurrently shrinking the size of our workforce. The property tax shift alone impacts the County's support for local discretionary programs in such areas as public safety, parks, libraries, public health, and general government as well as matching requirements for State and federal programs. None of this is easy. But we have taken steps to ensure that we have an organization and a spending plan that allows us to meet our obligations to County taxpayers, residents, and our employees.

As we plan for the next two years, we will work closely with the State and other counties to aggressively protect revenues for the services San Diego County residents want and need. We will continue to provide many vital core services to County residents. And we will not waver in our commitment to use the public funds with which we've been entrusted wisely to support the priorities of our Board of Supervisors and citizens - to provide services that improve opportunities for kids, protect the environment and promote safe and livable communities.

Walter F. Ekard, Chief Administrative Officer

Organizational Chart



Land Use & Environment Group

- Executive Office
- SanGIS
- Agriculture, Weights & Measures
- Air Pollution Control District
- Environmental Health
- Farm & Home Advisor
- Parks & Recreation
- Planning & Land Use
- Public Works

Community Services Group

- Executive Office
- Animal Services
- County Library
- General Services
- Housing & Community Development
- Purchasing & Contracting
- Redevelopment Agency
- Registrar Of Voters

Finance & General Government Group

- Executive Office
- Assessor/Recorder/ County Clerk
- Treasurer-Tax Collector
- Auditor & Controller
- County Technology Office
- Civil Service Commission
- Clerk of the Board of Supervisors
- County Counsel
- Grand Jury
- Human Resources
- Media & Public Relations
- CAC Major Maintenance

Excellence in Governing

Mission:

To provide the residents of San Diego County with superior County services in terms of quality, timeliness and value in order to improve the region's Quality of Life.

Vision:

A County Government that has earned the respect and support of its residents.

Recognitions of Excellence

Even though San Diego County was challenged by serious events and situations in Fiscal Year 2003-2004, such as the devastating wildfires (Firestorm 2003) and the State's severe fiscal crisis, many of its departments and programs continue to be recognized for their operational and service delivery achievements, technological innovations, and prudent fiscal management.

- In early 2004, 29 County of San Diego programs were selected for Achievement Awards by the National Association of Counties (NACo). Of the 106 U.S. counties receiving recognition, San Diego County received the second highest number of awards given to any county.
- The County of San Diego was one of only ten California counties to receive a Challenge Award from the California State Association of Counties (CSAC) in 2004. Of the 58 counties in the State, only ten received the prestigious Challenge Award, with San Diego County winning for its Risk Mitigation and Litigation Program.
- The County of San Diego ranked #1 on a list of the nation's most digital-savvy counties, according to the 2004 Digital Counties Survey, which examined how county governments use information technology to deliver services to citizens. The nationwide survey was conducted jointly by the Center for Digital Government, the National Association of Counties (NACo), and Government Technology magazine.
- County Television Network (CTN), the local government access channel for the County of San Diego, was awarded four Emmy awards by the National Association of Television Arts and Sciences/Pacific Southwest Chapter, for programming excellence and also received first place for Overall Excellence in 2004 by the States of California and Nevada Chapter / National Association of Telecommunications Officers and Advisors (SCAN NATOA).
- The San Diego County Taxpayers' Association (SDCTA) awarded their 2004 Regional Golden Watchdog Award to the San Diego County District Attorney for the District Attorney's Elder Abuse Program, with the County's "Public Purchasing: Changing Times, Changing Ways" program named a finalist in the same category.

Other recognitions of excellence received by San Diego County that highlight the County's progress in meeting its strategic goals include:

Strategic Initiative - Improving Opportunities for Kids

- **National Association of Counties (NACo)** - ***2004 Achievement Awards***
  - Emancipated Foster Youth Transitional Housing Program - rental assistance to former foster youth between the ages of 18-21.
  - The Virtual Teen Experience - County Library program designed to focus attention on customer service to adolescents.
  - East Region Way Station - emergency foster homes while regional placement is obtained.
- **The Performance Institute** - ***2004 Innovations in Public-Private Partnerships*** - California Work Opportunity and Responsibility to Kids (CalWORKS) and the Child Assessment Network North (CANN).
- **National Association of Telecommunications Officers and Advisors (NATOA)** - ***2004 Government Programming Award Winners*** to County Television Network (CTN) in the *Children/Young Adults category:* Bullying.

- **Child Support Directors Association of California** (CSDA) honored Child Support Services as the ***2004 Top Agency*** in the State of California in three of five federal standard performance categories.

Recognition of other programs supporting the Kids Initiative

- **Outdoor Adventure Program** - a recreation program for at-risk teens.
  - **California Parks and Recreation Society (CPRS)** - ***2004 Achievement Award.***
- **Pacific Southwest Regional Council, National Association of Housing & Redevelopment Officials** ***National Award-of-Merit Winner*** for Resident Opportunities and Academic Scholarships.

Strategic Initiative - Protect the Environment

- **NACo** - ***2004 Achievement Awards***
  - Assistance to Maricopa County: Providing Analysis of Ambient Hydrocarbon Samples.
  - Air Pollution Control District (APCD) Title V Federal Operating Permit Program.
  - Strategic Acquisition Planning Geographic Information System (GIS) Mapping Model.
- **NATOA** - ***2004 Government Programming Award Winners*** to CTN for ***Innovative Program:*** Down to Earth.
- **California State Association of Counties (CSAC)** - ***2004 Merit Awards***
  - Lawnmower Emissions Reduction Program.
- **Strategic Acquisition Planning Geographic Information System (GIS) Mapping Model** - a state-of-the-art GIS modeling system to identify grants to protect environmental resources, and expand parks and recreation programs.
  - **NACo** - ***2004 Achievement Award.***
  - **California Parks and Recreation Society** - ***2004 Achievement Award.***
- **U.S. Environmental Protection Agency and Department of Transportation** - ***Best Workplaces for Commuters*** award in recognition of incentive programs for employees to carpool and take public transportation.
- **The National Television Academy - Pacific Southwest Chapter** - ***2004 Emmy Winners*** to CTN for the *Informational /Educational Program* category: Down to Earth.

Other recognition for programs supporting the Environment Initiative

- **Association of Environmental Professionals** - ***Certificate of Merit Award*** to Planning and Land Use Website recognized as an Outstanding Environmental Resource.
- **Solid Waste Association of North America (SWANA)** - ***Bronze Excellence Award*** for Jamacha Landfill Gas Utilization.
- **Environmental Systems Research Institute (ESRI) International GIS** - ***"Most Analytical" Award*** - used to accurately map a Mexican Fruit Fly infestation in Valley Center to enable containment.
- **California Directors of Environmental Health (CCDEH)** - ***2004 Excellence in Environmental Health Award*** for First Responder Hazardous Materials Business Plan Program.
- **California Environmental Protection Agency** - ***National Pollution Prevention Week 2003 Award*** for exemplary work in promoting Pollution Prevention throughout the year.

Strategic Initiative - Promoting Safe & Livable Communities

- **Firestorm 2003** - San Diego County recently suffered the worst wildfires in California history. These fires burned nearly 400,000 acres, destroyed 5,000 structures, and resulted in loss of life. The County's initial response was to save life, limb, and property. Restoration of vital infrastructure, assistance to affected citizens, and reduction of flood and erosion risks has been the continued response.

  NACo - *2004 Achievement Awards*
  - Department of Parks and Recreation Strike Team.
  - Erosion Control Actions - Firestorm 2003.
  - Local Assistance Center - Firestorm 2003.

  American Public Works Association (APWA)
  - *Environmental Project of the Year/$2-10M* - Post-Fire Erosion Control.
  - *Environmental Project of the Year/$2-10M (Honorable Mention)* - Debris Removal to Prevent Contamination of Drinking Water.
- **Homeless Court** - a groundbreaking program that helps the homeless resolve outstanding legal issues:
  - **Ash Institute for Democratic Governance and Innovation, Harvard University's Kennedy School of Government** - *2004 Annual Innovations in Government Award finalist.*
  - **States of California & Nevada Chapter / National Association of Telecommunications Officers and Advisors (NATOA)** - *First Place 2004 "Star" Award - Special Audience* and **NATOA** - *2004 Government Programming Award Honorable Mention:* Homeless Court.·
- **NACo** - *2004 Achievement Awards*
  - "Fight the Bite" - a West Nile Virus Strategic Response Plan.
  - Consumer Awareness Program for Scanner Price Accuracy.
  - Farmworker Health Initiative.
  - Fallbrook Revitalization.
  - Lincoln Acres Community Cleanup Project.
  - Rental Assistance Fraud Detection Partnership.
  - San Diego e-Bus - Bridging the Digital Divide.
  - Amazon Wish List for Library.
  - Earn It, Keep It, Save It! Program.
  - Health Advisory Committee on Terrorism.
  - Emergency Medical Alert Network.
  - Mentally Ill Offender Program.
  - Organized Automobile Fraud Activity Interdiction Program.
  - Identity Theft Program.
  - Constituency Outreach - Treasurer/Tax Collector.
  - Bringing the Court to the Street - CTN.
- **"You Can Work" Program** - an employment initiative, which assists the disabled in San Diego County to work without placing their benefits at risk.
  - *2004 Award of Excellence* by the **National Organization on Disability and the National Association of Counties (NACo).**
  - **CSAC** - *2004 Merit Award.*
- **NATOA** - *2004 Government Programming Award Winners* to CTN for:
  - ***Public Education:*** Touch Screen Voting - How It Works.
  - ***Public Safety:*** Jail Kitchen.
  - ***Ethnic Experience:*** "World Beat Center" and "CTN Celebrates the Holidays: Ramadan".
  - ***Public Service Announcement:*** Having a Big Bug Problem?
- **Volunteers in Probation** - a community service program to help individuals on probation become law-abiding, productive citizens.
  - **NACo** - *2004 Acts of Caring Awards Program - Criminal Justice* recognizing the best nationwide volunteer programs.

- **SCAN NATOA Chapter** - *First Place 2004 "Star" Award* to CTN for:
  - *Magazine Format:* County Chronicles
  - *Public Safety Programming:* Detention Deputies.
- **American Planning Association, San Diego Chapter** - *Honorable Mention- Outstanding Planning Projects*
  - Fallbrook Revitalization.
  - San Diego County Waterfront Park Master Plan.

Other recognition for programs that promote the Safe and Livable Communities Initiative

- **The National Television Academy - Pacific Southwest Chapter** - *2004 Emmy Winners to CTN* for:
  - *Entertainment Program:* Sam the Cooking Guy - "Rice" and "All British".
  - *Writing/Other than News:* Jail Chaplain.
- **Serial Inebriate Program (SIP)** - a joint city/county program providing substance abuse treatment and shelter for chronic public inebriates was highlighted as a model program.
  - **Federal Housing and Urban Development (HUD)** March 2004 report - *"Strategies in Reducing Chronic Street Homelessness"*
- **SCAN NATOA Chapter** - *2004 "Star" Award* to CTN for:
  - *Documentary - Profile:* Veterans Remember - Combat, Day One.
  - *Documentary - Social:* CTN Celebrates the Holidays: Ramadan.
  - *Public Safety Programming:* Jail Kitchen.
  - *Promo:* Touch Screen Voting - How It Works.
  - *Sports:* A Night at the El Cajon Speedway.
  - *Performing Arts:* KPRI Private Concert Thorns/ Jayhawks.
  - *Public Service Announcement:* Having a Big Bug Problem?
- **Aging and Independence Services**
  - **International Council on Active Aging** - *Industry Innovators Award* for Feeling Fit Club Program.

Operational Excellence Awards

- **California State Association of Counties (CSAC)** - *2004 Challenge Awards*
  - Risk Mitigation & Litigation Program.
- **NACo** - *2004 Achievement Award*
  - Customer Service Training - Housing and Community Development.
  - Library Staff Training Academy.
  - Library DVD/CD Care and Repair.
  - Contracts Training Academy.
  - Health and Human Services Agency Revenue Project.
- **CSAC** - *2004 Merit Awards*
  - Executive Management Performance System.
  - Public Purchasing: Changing Times, Changing Ways.
- **National Association of Government Defined Contribution Administrators (NAGDCA)** *2004 Leadership Recognition Award* to the Treasurer/Tax Collector and the San Diego County Employee Retirement Association (SDCERA) for the SDCERA Financial & Investment Educational Symposium Series designed for current and retired County employees.

Other recognition - Operational Excellence

- **Government Finance Officers Association of the United States and Canada** - *Distinguished Budget Presentation Award* for the 2003-04 & 2004-2005 Operational Plan.
- **Purchasing and Contracting** - Business processes and technology enhancements.
  - **National Purchasing Institute, Inc.** - *2004 Achievement of Excellence in Purchasing Award.*
  - **San Diego Taxpayer's Association** - *2004 Golden Watchdog Award - Finalist.*

- **Government Finance Officers Association of the United States and Canada** - ***Certificate of Achievement for Excellence in Financial Reporting*** for the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ended June 30, 2003.
- The San Diego County Juvenile Hall Facility was re-accredited in June 2004 for two years at the highest level, by the **California Medical Association** (**CMA**) - one of only seven counties statewide to achieve this level of accreditation.

San Diego County Profile

County History & Geography

San Diego County became the first of California's original 27 counties on February 18, 1850, shortly after California became the 31st State in the Union. At the time of its creation, San Diego County comprised much of the southern section of California. The original County boundaries included San Diego, along with portions of what are now Imperial, Riverside, San Bernardino, and Inyo counties.

The original territory of nearly 40,000 square miles was gradually reduced until 1907, when the present boundaries were established. Today, San Diego County covers 4,255 square miles, extending 70 miles along the Pacific Coast from Mexico to Orange County and inland 75 miles to Imperial County along the international border shared with Mexico. Riverside and Orange counties form the northern border.

Juan Rodriguez Cabrillo discovered the region that eventually became San Diego on September 20, 1542. Although he named the area San Miguel, it was renamed 60 years later by Spaniard Don Sebastion Vizcaino. He chose the name San Diego in honor of his flagship and his favorite saint, San Diego de Alcala.

San Diego County enjoys a wide variety of climate and terrain, from coastal plains and fertile inland valleys to mountain ranges and the Anza-Borrego Desert in the east. The Cleveland National Forest occupies much of the interior portion of the County. The climate is equable in the coastal and valley regions where most resources and population are located. The average annual rainfall is only 10 inches, so the County is highly reliant on imported water.

In October 2003, Firestorm 2003 burned nearly 400,000 acres and destroyed approximately 5,000 structures. The County has moved quickly to repair and safeguard public infrastructure, such as roads and parks, and to assist private property owners in protecting their property by removing contaminated burn debris and installing erosion control devices to reduce risk of flooding and mudflows. Total costs to the County for Firestorm 2003 are projected to be $42.6 million.

County Population

San Diego County is the southernmost major metropolitan area in the State of California. The County population in January 2004 was estimated to be 3,017,200, an increase of 1.4% over January 2003, making it the third largest county by population in California.

City	January 1, 2004
Carlsbad	93,000
Chula Vista	209,340
Coronado	26,450
Del Mar	4,560
El Cajon	97,600
Encinitas	62,600
Escondido	140,500
Imperial Beach	27,800
La Mesa	56,000
Lemon Grove	25,600
National City	57,000
Oceanside	173,300
Poway	50,600
San Diego	1,294,000
San Marcos	67,400
Santee	54,000
Solana Beach	13,450
Vista	94,000
Unincorporated	470,000
Total	3,017,200

The population surpassed 3 million in 2003. The regional population forecast for 2030 is estimated at 3.9 million according to the San Diego Association of Governments (SANDAG).

The racial and ethnic composition of San Diego County is as diverse as its geography. According to SANDAG's analysis of the 2000 Census, 55% of the population is White; 27% Hispanic; 9% Asian; 5% Black; and 4% all other groups. The 47% growth in the Hispanic population over the last 10 years has significantly exceeded total County population growth of 13%. SANDAG projects that both Hispanic and Asian population shares will continue to increase through 2020.

County Economy

San Diego County has experienced positive economic growth every year since 1994. Although economic momentum has slowed in recent years, San Diego County's gross regional product (GRP), the estimated total value of the local economy, grew an inflation-adjusted 3.5% and reached a record setting $129.2 billion in 2003. The regional economy has outperformed both the State and national growth rates. The San Diego Regional Chamber of Commerce's Economic Research Bureau (ERB) forecasts that San Diego will experience yet another year of positive economic growth in 2004, an inflation-adjusted 4.2%.

Nearly one-half of San Diego County's population is part of the civilian labor force. The region is also home to perhaps the largest military complex in the world, and represents another 108,000 jobs within the local economy. The County has experienced positive job growth, prompting migration to San Diego by prospective employees in search of work. The annual unemployment rate is estimated at 3.9% for 2004. These figures remain lower than the State forecast of 6.2% and the national forecast of 5.8%.

Median household income in San Diego County was estimated at $54,293 for 2003 and is expected to be $58,100 in 2004. The demand for residential construction will remain strong in 2004. Home values countywide shot up an average of 17% in 2003. In 2004, single-family home prices are expected to increase up to 30%. San Diego's housing affordability, a measure indicating the average household's ability to afford a median-price home, fell to 11% in May 2004 from 15% in December 2003, 22% in 2002 and 27% in 2001.

Since the prolonged recession of the early 1990's, San Diego County has worked hard to build a more diversified economy. San Diego evolved as a hub for research and development (R&D) and product manufacturing in telecommunications, biotechnology, military products, electronics and information technology. A broad base of high technology companies has benefited the local economy. Due to the considerable build-up of military and defense-related spending by the U.S. government following the September 11th, 2001 terrorist attacks, San Diego received an increase in defense expenditures to more than $13.6 billion in 2002. Overall, defense spending continued to rise in 2003 with the Middle East conflicts. International trade and implementation of the North American Free Trade Agreement (NAFTA) continue to be a major economic strength for the County. The San Diego Convention and Visitors Bureau (CONVIS) reported visitor spending nearly 5.0% above the previous year and approaching a record of nearly $5.3 billion in 2003. The expansion of the San Diego Convention Center and the opening of the new Petco Park baseball complex downtown creates additional economic benefits for area hotels.

Sources: SANDAG - San Diego's Regional Planning Agency and the San Diego Regional Chamber of Commerce.

Understanding the Operational Plan

This Operational Plan provides the County's financial plan for the next two fiscal years (July 1, 2004 through June 30, 2006). Pursuant to Government Code §29000 et al., however, State law allows the Board of Supervisors to formally adopt only the first year of the Operational Plan as what is known as the annual Line-Item Budget. The Board approves the second year of the plan in principle for planning purposes.

The Operational Plan details each department's major accomplishments achieved during the past year, discusses strategic objectives for the next two years, and projects the resources required to achieve them. Operational planning in the County's General Management System (GMS) builds from the Strategic Plan and the Five-Year Financial Forecast. The first two fiscal years of the financial forecast form the basis for the Operational Plan. The Operational Plan is monitored regularly and is linked to the rewards and recognition phase of the GMS.

The following information is provided to assist the reader in understanding the Operational Plan's data and narrative.

Governmental Structure

The County was incorporated February 18, 1850, and functions under a Charter adopted in 1933, including subsequent amendments. A five-member Board of Supervisors elected to four-year terms in district, nonpartisan elections governs the County. There are 18 incorporated cities in the County and a large number of unincorporated communities. The County provides a full range of public services, including public assistance, police protection, detention and correction, health and sanitation, recreation, and others. These services are provided by five Agency/Groups, that are headed by General Managers [Deputy Chief Administrative Officers (DCAOs)], who report to the Chief Administrative Officer (CAO). Within the Groups, there are four departments that are headed by elected officials - District Attorney and Sheriff (Public Safety Group) and the Assessor/Recorder/County Clerk and Treasurer-Tax Collector (Finance and General Government Group).

The General Management System

The County's General Management System is the instruction manual for managing County operations and is the guide for adherence to key disciplines and core principles. The GMS describes how we plan, implement, and monitor all County functions that affect the services we provide to County residents, businesses, and visitors. Simply put, the GMS is a way of making sure that we uphold our obligations to our fellow citizens by sticking to our promises and plans, objectively evaluating performance, striving for continuous improvement, and efficiently applying precious taxpayer dollars.

The idea behind the GMS is straightforward: the County is able to provide superior services if we set sound goals and apply sound management principles to achieve those goals. At the heart of the GMS are five overlapping components that help make sure the County asks and answers crucial questions:

Strategic Planning asks: *Where are we going?* Strategic Planning is long-range (five-year) planning that anticipates significant needs, challenges, and risks on the horizon. A key product of the Strategic Planning process is the County's Strategic Plan, which defines major goals and action plans.

Operational Planning asks: *How do we plan to get where we're going?* Operational Planning focuses on short-term planning for the two upcoming fiscal years, allocating resources to specific programs and services in order to implement the Strategic Plan.

Monitoring and Control asks: *Are we on track?* Monitoring and Control is the process of continuously evaluating performance to ensure that goals are tracked, plans followed, and risks identified. This allows the County to know right away if we are over-spending or under-performing. Evaluations occur on a monthly, quarterly, and annual basis at all levels of the organization.

Functional Threading asks: *Are we working together?* The County has many critical functions and goals that cut across organizational lines. Functional threading ensures communication and cooperation across these lines to achieve objectives, solve problems, and share information. Coordinating staff and linking the functions they perform allows the County to efficiently use scarce resources.

Motivation, Rewards, and Recognition asks: *Are we sharing goals and encouraging success?* County employees personalize GMS disciplines. This requires setting clear expectations for employees, providing incentives, evaluating employees' performance, and rewarding those who meet and exceed expectations.

The five GMS components form an annual cycle that is renewed each fiscal year with review of the Strategic Plan and development of a new Operational Plan.

Strategic Plan

The General Management System provides the County with a set of operating rules and guidelines. The Strategic Plan identifies key goals and disciplines, outlining the County's priorities for accomplishing our mission over a five-year period. Our Strategic Plan tells us where we should be going and our General Management System helps make sure we get there.

The County's 2004-09 Strategic Plan defines broad, organization-wide goals - known as Strategic Initiatives - which help prioritize specific County efforts and programs and form the basis for allocating resources. Everything the County does supports these three Strategic Initiatives: Kids (Improve opportunities for children), the Environment (Promote natural resource management strategies that ensure environmental preservation, quality of life, and economic development), and Safe and Livable Communities (Promote safe and livable communities).

The Strategic Plan also sets forth key organizational disciplines since we must maintain a high level of operational excellence in order to accomplish our Strategic Initiative goals. Our Required Disciplines serve as enablers to the Strategic Initiatives. These Required Disciplines are: Fiscal Stability; Customer Satisfaction; Regional Leadership; Skilled, Competent Workforce; Essential Infrastructure; Information Management; Accountability/ Transparency; and Continuous Improvement.

To connect our Strategic Plan goals with the resources necessary to achieve them, a Five-Year Financial Forecast evaluates our available resources. To further align our goal setting process with resource allocation, the Strategic Plan is reflected in the program objectives in the Operational Plan, in the performance plans for managers, and in each department's Quality First Program goals.

Context for Strategic and Operational Planning

To be effective, the goals we set and resources we allocate have to be consistent with our purpose as an organization. Context for all strategic and operational planning is provided by the County's Mission, Guiding Principles, and Vision. The Strategic Plan sets the course for accomplishing the County's mission:

To provide the residents of San Diego County with superior County services in terms of quality, timeliness and value in order to improve the region's Quality of Life.

This mission reflects our commitment to anticipating, understanding, and responding to the critical issues that affect our residents. The Strategic Plan also upholds the County's Guiding Principles, core values that articulate our organization's ethical obligations to County residents and basic standards to which County employees must adhere. These four Guiding Principles are:

- Provide for the safety and well-being of those San Diego communities, families, individuals, and other organizations we serve.

- Preserve and enhance the environment in San Diego County.
- Ensure the County's fiscal stability through periods of economic fluctuations and changing priorities and service demands.
- Promote a culture that values our employees, partners and customers and institutionalizes continuous improvement and innovation.

Achieving our Strategic Initiatives and maintaining operational excellence allows the County to realize its Vision:

A County Government that has earned the respect and support of its residents.

Notes to "Understanding the Operational Plan"

Health and Human Services Agency

The Operational Plan has changed from previous years' broad categories of programs. Its new presentation promotes and maintains accountability and transparency of Agency services and operations and consists of:

- Three "stand-alone" service divisions, Aging and Independence Services, Child Welfare Services, and Public Health Services.
- Regional Operations (the service delivery system).
- Regional Program Support.
- Behavioral Health Services (Alcohol and Drug Services and all Mental Health services).
- Administrative Support.

Trade and Business Development

The Office of Trade and Business Development has been eliminated to recognize the changes in economic development in the region due to the established regional and subregional economic development corporations.

Operational Plan Documents

Several documents are produced to aid in budget development and deliberations:

CAO Proposed Operational Plan–is a comprehensive overview of the Chief Administrative Officer's (CAO) proposed plan for the County's operations for the next two fiscal years, including:

- Summary tables showing the balance of revenues and expenditures for all County funds.
- A listing of planned capital projects.
- A summary of the County's short- and long-term debt.
- A detailed section by Agency/Group and Department/program describing their missions, prior year accomplishments, operating objectives, revenue amounts and sources, expenditures by category, staffing by program, and performance measures.
- Other supporting material including a glossary.

Change Letters–are proposed changes to the CAO Proposed Operational Plan submitted by the CAO and members of the Board of Supervisors. The CAO Change Letter updates the CAO Proposed Operational Plan with information that becomes available after the document is presented to the Board of Supervisors. Such modifications may be due to Board actions that occurred subsequent to the submission of the CAO Proposed Operational Plan or recent changes in State or federal funding. The CAO Change Letter typically contains:

- A schedule of revisions.
- A summary of Agency/Group adjustments.
- Highlights of significant changes to the Proposed Operational Plan.

Referrals To Budget–are status updates on items on which the Board of Supervisors has deferred action during the current fiscal year until the budget process. The Clerk of the Board tracks referrals to budget. As Budget Deliberations approach, the status of each referral is updated and included in a compilation of all the referrals made throughout the year. This document is submitted to the Board for its review and for discussion with affected departments during Budget Deliberations.

Citizen Advisory Board Statements–are comments of citizen committees on the CAO Proposed Operational Plan.

Referrals From Budget–are requests made by the Board of Supervisors during Budget Deliberations for additional information to assist them in making decisions during the fiscal year. The Agency/Groups are responsible for providing requested information to the Board. The status of each referral from budget is tracked by the Clerk of the Board to ensure that the information is provided.

Post Adoption Documents

Operational Plan–is a comprehensive overview of the Board of Supervisors' adopted and approved plan for the County's operations for the next two fiscal years. The Operational Plan is an update of the CAO Proposed Operational Plan reflecting revisions made by the Board during Budget Deliberations. Like the CAO Proposed Operational Plan, the Operational Plan includes:

- Summary tables showing the balance of revenues and expenditures for all County funds.
- A listing of planned capital projects.
- A summary of the County's short- and long-term debt.
- A detailed section by Agency/Group and Department/program describing their missions, prior year accomplishments, operating objectives, revenue amounts and sources, expenditures by category, staffing by program, and performance measures.
- Other supporting material including a glossary.

Budget Modifications–State Law permits modifications to the first year of the Operational Plan during the year with approval by the Board of Supervisors. There are two options for accomplishing a mid-year budget adjustment:

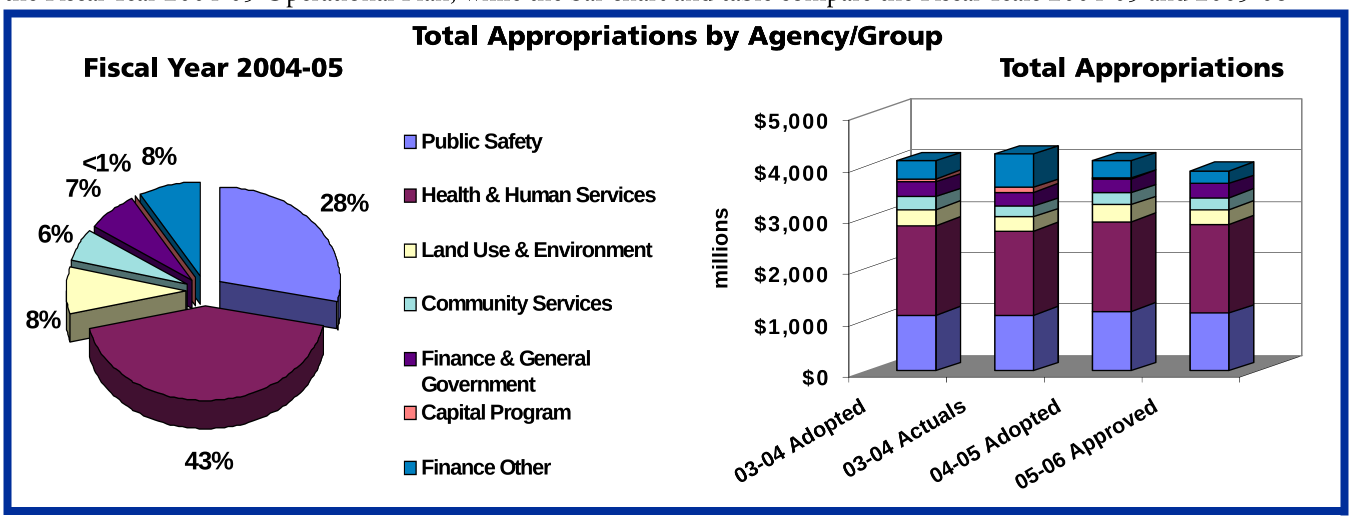
- **Board Of Supervisors Weekly Regular Agenda Process**—Budget modifications are generally made due to unforeseen and program-specific changes. In compliance with Government Code §29130, increases in appropriations require a four-fifths vote by the Board after the first year of the Operational Plan Line-Item Budget is adopted.

  Such changes could include requests for additional appropriations as a result of additional revenues for specific programs or a contract modification. Items placed on the agenda that have a fiscal or budgetary impact are reviewed and approved by the Chief Financial Officer and County Counsel. Contract modifications also require the approval of the Purchasing Agent.
- **Quarterly Status Reports**–Quarterly, each Agency/Group may recommend appropriation adjustments and management reserve and/or Contingency Reserve usage through the CAO to address unanticipated needs.
- **Adjusted Actuals**— Expenditures may not legally exceed budgeted appropriations at the expenditure object level within each department. In some instances in the Adopted Operational Plan, the adjusted actuals for the most recently completed fiscal year will exceed the adopted budget for that year. This results from the inclusion of expenditures related to mid-year budget amendments or to encumbrances of prior year appropriations in the adjusted actual figures. The adopted budget does not include appropriations for these expenditures, but the appropriations are part of the "current budget" and are thus considered "budgeted".

All Funds: Total Appropriations

Total Appropriations by Agency/Group

Appropriations total $4.09 billion in the Adopted Operational Plan for Fiscal Year 2004-05 and $3.9 billion for Fiscal Year 2005-06. This is a decrease of $2.0 million (-0.05%) for Fiscal Year 2004-05 from the Fiscal Year 2003-04 Adopted Budget. Looking at the Operational Plan by Agency/Group, expenditures increase in the Public Safety and Land Use Groups and in the Health and Human Services Agency (HHSA), with the other Groups and Countywide program categories decreasing appropriations. The Health and Human Services Agency, at $1.75 billion, continues to be the largest share of the budget (43%), followed by the Public Safety Group at $1.16 billion (26%). The pie chart below shows each functional area's share of the Fiscal Year 2004-05 Operational Plan, while the bar chart and table compare the Fiscal Years 2004-05 and 2005-06



Total Appropriations by Agency/Group (in millions)

	Fiscal Year 2003-2004 Adopted Budget	Fiscal Year 2003-2004 Adjusted Actuals	Fiscal Year 2004-2005 Adopted Budget	Fiscal Year 2005-2006 Approved Budget
Public Safety	$ 1,082.8	$ 1,081.3	$ 1,158.6	$ 1,115.1
Health & Human Services	1,744.1	1,641.6	1,751.0	1,737.5
Land Use & Environment	305.6	267.7	324.8	288.3
Community Services	251.7	208.5	231.2	228.5
Finance & General Government	289.1	272.4	276.5	273.3
Capital Program	67.8	102.2	8.2	3.4
Finance Other	349.1	651.0	338.0	250.2
Total	$ 4,090.2	$ 4,224.6	$ 4,088.2	$ 3,896.3

appropriations to Fiscal Year 2003-04 levels.

Total appropriations are driven by the resources available to support them and the mix of those appropriations by the combination of contractual commitments, such as negotiated salaries agreements, and the objectives of the three Strategic Initiatives. The efforts taken by the State to balance its budget have had negative financial impacts on local governments on several fronts.

- First, the State mandates that the County provide certain programs and services, which are delivered by both County staff and outside contractors. The State has failed to adequately fund these mandated programs. As an example, although some mandated HHSA program costs and caseloads have increased, the State has not increased its funding. The consequence of this State fiscal strategy is reduced service levels at the County level.
- Second, under the State budget, the County's discretionary funding (General Purpose Revenues, $657.4 million and $680.4 million for Fiscal Years 2004-05 and 2005-06, respectively) has suffered damage for the next two years through a shift of $27.5 million in property tax revenue away from the County to public schools in each of the two years. For a full discussion, see the section below entitled "General Purpose Revenues." This loss of revenues that are most central to local discretionary services and priorities has necessitated a painful adjustment of resource allocations to ensure that we retain core services, but at the expense of either scaling back or eliminating other valuable, but non-core, services.

An overview of the County's Operational Plan is presented below by Agency/Group. More detail by departments begins on page 59.

Public Safety Group — A net increase of 7% or $75.8 million over the Fiscal Year 2003-04 Adopted Operational Plan. This increase is due to the one-time expenditures of grant funds for emergency and communications equipment and negotiated salaries and benefits increases. Resource constraints in other areas require a reduction of 445.50 staff years within the Public Safety Group. These reductions are the result of the property tax shift to schools by the State of California, as well as reductions in categorical and State funded programs.

The effects include:

- Reduction in the level of supervision provided to juvenile offenders.
- Fewer juvenile detention beds provided locally.
- Reduction in juvenile prevention programs.
- Indigent clients will receive services under a new model that may not include assigning one lawyer to their case from start to finish.
- A greater emphasis on collections for San Diego families receiving child support today, with a reduced emphasis on collections on behalf of the State for families receiving assistance.

Despite these reductions, the departments within the Public Safety Group will provide safe and livable communities for the citizens of San Diego County as well as an efficient and responsive criminal justice system.

Key objectives in the coming year include:

- Participate in the development of a Regional Intelligence Center that would also serve the region's needs for a Terrorism Early Warning Center.
- Work with San Diego County law enforcement and fire services agencies to develop protocols and procedures to use an automated community notification system to alert County residents of emergency situations.
- Complete enhancements to the Regional Communications System using identified one-time funds.

- Establish health insurance orders in 80% of cases with current child support orders, ensuring that children have the opportunity to receive health insurance.
- Improve the safety of our communities by monitoring sex offenders. Departments within the Public Safety Group will implement standards for supervision of sex offenders, ensure successful implementation of the sex offender registration program, and support legislation to broaden access to the Megan's Law database on sex offenders.
- Identify funding to acquire land and to construct a new Sheriff's station in the Rancho San Diego community.
- Establish a program for Adult Literacy focusing on nonviolent offenders without a high school diploma or General Equivalency Diploma (GED).
- Attack gang violence by partnering with local jurisdictions and non-County agencies to identify all active gangs, gang members and their areas of operation within the County. Departments within the Public Safety Group will target those areas by developing law enforcement and prosecution strategies as well as participating in multi-agency sweeps.
- Achieve a safe and secure first year of operations for the East Mesa Juvenile Detention Facility.
- Participate on a multi-disciplinary task force to address and work to prevent the harmful effects of youths' exposure to violence.
- Assess the prevalence of drugs in motor vehicle fatalities, many of which involve minors, through a partnership with the Drugs, Alcohol, and Driving Project (DAAD).
- Assist communities in the unincorporated area of the County in the development of evacuation/emergency plans.

Health and Human Services Agency (HHSA) — A net increase of 0.4% or $6.9 million over the Fiscal Year 2003-04 Adopted Operational Plan.

With the State's continuing fiscal crisis, the Operational Plan assumes either reductions or no growth in most State and federal allocations that support the majority of the Health and Human Services Agency's programs. This is the fourth year that the cost of doing business is increasing faster than available funding, and revenue allocations for caseload growth have not been included in most State funding sources.

Consequently, HHSA has carefully reviewed all programs, will eliminate or reduce some functions in the upcoming year and, for the second year in a row, has reduced staff years. The overall increase supports negotiated salaries and benefits agreements and aligns resources to growing entitlement programs. Programs across HHSA are being reduced to align with projected funding, with reductions planned in services to families and individuals, behavioral health, public health, and administrative support.

Where possible, resources were allocated based on the following principles and guidelines:

- Maintain core, priority, and mandated programs and activities.
- Align resources to support the County and HHSA's Strategic Plans, with a focus on Kids, the Environment, and Safe and Livable Communities.
- Use one-time resources for one-time costs, not ongoing expenses.
- Use evaluation or outcome data in sustaining programs or minimizing reductions.
- Preserve funding that "matches" or leverages other dollars.

Key objectives in the coming year include:

- Provide free tax preparation services to 2,000 low-income residents for the federal Earned Income Tax Credit (EITC) program, returning $3.0 million in tax dollars back to the community.

- Increase by about 2,225 (to reach 224,747) the number of eligible children enrolled in Medi-Cal and Healthy Families to enhance access to physical and dental prevention and treatment services.
- Strengthen Child Welfare Services by managing to achieve State and federal accountability outcomes for the safety and well-being of children.
- Place 50% of an estimated 8,000 participants in the Welfare-to-Work program each month in unsubsidized employment.
- Conduct three drills or exercises with Public Health staff and community partners to evaluate and enhance the County's level of preparedness for public health hazards.
- Ensure 90% of contacts to infectious tuberculosis (TB) cases are evaluated, according to federal standards, to prevent the spread of this communicable disease.
- Begin construction of the Edgemoor Healthcare Campus, which will house 192 residents, and improve the quality of life for those patients.
- Manage better with fewer resources by strengthening Agency revenue management and developing performance work statements for 10% of contracts identified in a performance-based contracting plan.
- Begin the integration of mental health and alcohol and other drug services into a behavioral health system, responsive to the needs of children and adults with both substance abuse and mental health problems.
- Achieve an accuracy rate of 94% of Food Stamp benefits dollars issued to more than 30,000 households.

Land Use and Environment Group — An expenditure increase of 6.3% or $19.2 million from the Fiscal Year 2003-04 Adopted Operational Plan. The net change is a result of decreases from the State shift of property tax revenues and increases in primarily one-time-only funds. The Board of Supervisors approved the acceptance of three grants totaling $39.9 million for the Hazardous Fuels Reduction Program. In addition, the Board has allocated another $5.0 million to establish the Fire Safety and Fuels program which will allow the County to effectively manage these grant funds. Other changes are as follows:

Firestorm 2003:

- One-time-only rebudgets of $3.7 million for rebuilding parks and trails.
- One-time-only rebudgets of $0.8 million for processing permits and for removing damaged vehicles.

Other changes:

- A net increase of $9.4 million in the Detailed Work Program as a result of updated project costs and timelines.
- Rebudget of $2.0 million in the Group's Management Reserve, for shared major maintenance and Information Technology improvements.

The above increases are offset by the State shift of property tax revenues away from the County and reductions by the State in various State-funded categorical programs, with an overall net reduction of 37.00 staff years. The decrease will have the following results on activities:

- Reduced level of Code Enforcement.
- Reductions in road and flood control projects.
- Elimination of High Risk Pest Exclusion Program by mid-November.

Key objectives in the coming year include:

- Seek full State and federal reimbursement of costs resulting from Firestorm 2003.
- Develop grant proposals to help fund fire recovery efforts including the removal of dead and dying trees.
- Complete public review of the General Plan 2020 Environmental Impact Report, and present it to the Board of Supervisors for approval.

- Continue to improve watershed protection and stormwater quality through regional leadership, developing guidance documents, conducting inspections of construction projects, and continuing a systematic culvert, drainage channel, and road cleaning program to keep debris out of rivers, bays, and the ocean.
- Complete Environmental Impact Report/Study for the North County Multiple Species Conservation Program (MSCP) Subarea Plan.
- Revise rules to further reduce emissions from gasoline stations, solvents, boilers, engines and gas turbines to continue ozone attainment.
- Build or replace five playgrounds to provide safe, fun, accessible play areas and physically challenging recreation opportunities and construct or upgrade five athletic fields to improve opportunities for children to exercise and enjoy team sports.
- Improve customer service delivery by improving basic and advanced customer service training throughout the County organization.

Community Services Group — A net decrease of 8% or $20.5 million from the Fiscal Year 2003-04 Adopted Budget. This decrease is the net combination of several factors: a 10% decrease (113.00 staff years) in staffing in response to the State shift of property tax revenues away from the County; the non-renewal of Animal Services contracts with two cities; demands from customer cities and departments for reduced total service costs; negotiated salaries and benefits increases; increased spending for major maintenance; and, elimination of double budgeting of blanket purchase orders made possible by accounting changes associated with implementation of the Oracle financial system. As a result of these reductions, Group service levels will be reduced:

- Animal Shelters will be open to the public only five days a week instead of seven.
- Major maintenance will be focused on what is necessary for health, safety, and to avoid facility deterioration; discretionary capital projects will be limited.
- Requisitioning, contracting, and printing will be delayed.

Key objectives in the coming year include:

- Provide a nurturing environment for community youth by assisting families to secure safe, decent, and affordable housing by providing housing assistance subsidy to approximately 10,650 households.
- Successfully conduct the November 2004 Presidential General Election and March 2006 Gubernatorial Primary Elections.
- Complete construction and open the new North County Animal Shelter, the new Bonita-Sunnyside Library, Julian Library, Campo Library, and Spring Valley Gym and Teen Center.
- Maintain County facilities by completing $3.1 million in capital renewal and $7.1 million in major maintenance projects.
- Foster energy efficiency by: Completing $2 million in energy savings projects in County facilities; encouraging energy efficiency in affordable housing developed with assistance from County housing programs; and, in collaboration with San Diego Gas and Electric, providing programs on energy conservation in Spanish and English in the library service area communities.
- Complete installation of stormwater management infrastructure improvements at the County Operations Center.
- Acquire 1,000 acres for open space preservation in support of Multiple Species Conservation Program (MSCP).

- Expand use of procurement savings/cost avoidance techniques including alternate sourcing, simplified specifications, product substitution, surplus reutilization, use of existing competed contracts and cooperative purchase agreements, and reverse auctions.
- Duplicate the Fiscal Year 2003-04 achievement of zero euthanasia of any healthy, behaviorally sound animal in County shelters.
- Promote literacy and provide access to information by supplying more than 71,000 hours of library service at 32 branch and two mobile libraries.

Finance and General Government Group — A net decrease of 4% or $12.6 million from the Fiscal Year 2003-04 Adopted Budget. The net change is the result of a combination of the State shift of property taxes away from the County and lowered spending levels for the information technology (IT) services Countywide that are reflected in the IT Internal Service Fund. There are decreases in IT expenditures within the Group, reductions in levels of temporary and seasonal help, and an increase in salaries and benefits costs due to negotiated labor agreements. Staff years, however, are reduced by 36.25 in order to stay within available resources. Among the activities affected by reductions are:

- Availability of staff to implement new financial modules of the Enterprise Resource Planning (ERP) system.
- Contract oversight in the County Technology Office.

Key objectives in the coming year include:

- Serve as enablers to other County departments that directly support the County's Strategic Initiatives: Kids, The Environment, and Safe and Livable Communities.
- Provide accounting, budget, payroll and human resources services to County departments to provide the essential infrastructure for fiscal discipline and stability across the organization.
- Maintain a structurally-balanced budget in light of significant reductions in State revenue by continuing to balance prudent cash reserves with operational needs and balancing the County budget without the use of one-time funding for ongoing needs.
- Provide capital finance management services to County departments to maintain a favorable standing in the capital market and prudent management of the County's debt portfolio.
- Continue the implementation of information technology solutions that enhance the County's ability to provide services that meet its strategic initiatives.
- Continue to implement and enhance the County's vision of Human Resources by assisting County departments in hiring and retaining a committed, capable, and diverse workforce.
- Implement ERP applications to enhance strategic planning efforts and promote well-informed decision making at all levels of County government.
- Continue with Business Process Reengineering (BPR) efforts to expand and fully utilize the County's new Human Resources/Financial Enterprise Resource Planning systems and pbViews Performance Management software.
- Manage and maintain a favorable credit quality rating and volatility rating for the San Diego County Treasurer's Pooled Money Fund by protecting the pool investments against losses through the execution of prudent and conservative investment policies.
- Provide resources for the provision of services to the public through the collection of revenue from the assessment of property and recording activities.
- Obtain the Certificate of Achievement for Excellence in Financial Reporting and the Distinguished Budget Presentation Award from the Government Finance Officers Association of the United States and Canada,

demonstrating that visible, clear, and comprehensible decisions related to resource allocation are made by the County on behalf of its citizens.

- Provide legal services and specialized training to specifically address risk management issues for various County departments.

Capital — A net decrease of $59.6 million or 88% from Fiscal Year 2003-04. Beginning in Fiscal Year 2004-05, lease payments to the San Diego County Capital Asset Leasing Corporation (SANCAL) for County facilities will not be made from the Capital Outlay Fund, but directly from the General Fund, with the appropriations in Finance Other. Increased appropriations for new and existing capital projects include $2.0 million in preliminary funding for a new Sheriff substation in the Rancho San Diego community and funding for park playgrounds and open space acquisition.

Finance-Other — A decrease of $11.1 million or 3% from Fiscal Year 2003-04. This group of programs includes miscellaneous funds and programs that are predominantly Countywide in nature, have no staffing associated with them, or exist for proper budgetary accounting purposes. Included in this Group are such programs as the Contingency Reserve, the General Fund's Contribution to the Capital Outlay Fund, Lease-purchase Payments on SANCAL bonds, the Employee Benefits Internal Service Fund, the Public Liability Internal Service Fund, the Pension Obligation Bond (POB) Fund, the Community Enhancement Program, and the Community Projects Program. The decrease is the result of lower lease purchase payments and changes in amounts budgeted as one-time items. There is an increase in the Employee Benefits ISF for Workers' Compensation including an increase in the Workers' Compensation reserves.

Key objectives in the coming year include:

- Defease the remaining 1994 Pension Obligation Bonds to provide budgetary capacity for payments on new POBs that were issued in June 2004.
- Increase the reserve for Workers' Compensation by $2.0 million.

Total Appropriations by Category of Expenditures

The table below shows the Operational Plan broken down by category of expenditures. As noted above, the Fiscal Year 2004-05 Operational Plan decreased overall by $2.0 million from the Fiscal Year 2003-04 Adopted Budget.

Total Appropriations by Category (in millions)

	Fiscal Year 2003-2004 Adopted Budget	Fiscal Year 2003-2004 Adjusted Actuals	Fiscal Year 2004-2005 Adopted Budget	Fiscal Year 2005-2006 Approved Budget
Salaries & Employee Benefits	$ 1,349.3	$ 1,319.3	$ 1,404.1	$ 1,426.3
Services & Supplies	1,301.0	1,213.0	1,264.9	1,213.6
Other Charges	756.6	1,067.3	763.1	679.9
Capital Assets	24.2	46.0	11.4	4.3
Capital Assets Equipment	18.2	4.7	41.4	13.3
Expenditure Transfer & Reimb	(16.1)	(15.0)	(16.1)	(16.7)
Reserves	11.1	0.0	15.7	15.7
Reserve/Designation Increase	6.4	6.5	4.6	2.5
Operating Transfers Out	628.5	582.9	587.5	549.9
Management Reserves	11.0	0.0	11.7	7.5
Total	$ 4,090.2	$ 4,224.6	$ 4,088.2	$ 3,896.3

Changes include:

- Salaries and Benefits are increasing by $54.8 million (4.06%). The amount for salaries and benefits reflects negotiated increases in base pay and health insurance along with required payments to the retirement fund. The amounts budgeted for overtime and temporary help have been reduced. The smaller increase in Fiscal Year 2005-06 of $22.2 million (1.58%) is due to continuing increases in negotiated salaries and benefits costs and a small decrease in staff years (3.50). (See "Total Staffing" on page 28 for information on staffing changes by functional area and further detail regarding labor agreements.)
- Services and Supplies are decreasing by $36.1 million (2.77%). A change in accounting procedures and the elimination of Central Stores in the Purchasing and Contracting Internal Service Fund result in a decrease of $30.0 million in expenditures. Decreases are budgeted in many accounts within services and supplies, most notably for contracted services, consultant services, information technology, minor equipment, safety devices, travel, public liability insurance premiums, and miscellaneous expenses. Increases are budgeted, however, in areas such as major maintenance, equipment and vehicle maintenance, postage, household expense, and professional and specialized services.
- Other Charges are increasing by $6.5 million (0.86%). Appropriations in this category are for items such as aid payments, debt service payments, interest expense, right of way easement purchases, and various contributions to other agencies including trial courts and community enhancement organizations. Increases are budgeted in Aid for Adopted Children, Foster Care, Support and Care of Persons (Inmate Medical Costs) and bond

redemption. Decreases are budgeted in interest on bonds, lease purchase of structures and childcare participant benefits.

- Capital Assets appropriations, which include Capital Projects, Land Acquisitions, and Leases, are decreasing $12.8 million (52.89%) from last year. The amount of money available for new projects or project expansion varies year-to-year, but capital appropriations at the project level are generally considered to be one-time. Overall, there is less one-time funding available in this Plan for new capital projects.
- Capital Assets Equipment expenditures are increasing by $23.2 million (127.47%), as a result of enhancements to the Regional Communications System.
- Reserves are increasing by $4.6 million (41.44%). This appropriated Contingency Reserve is set aside for Countywide operating emergencies and other unanticipated needs during the year. For example, in Fiscal Year 2003-2004, reserves were used for immediate response expenditures related to Firestorm 2003.
- Reserve / Designation Increases can vary from year to year depending upon the need to set aside fund balance for specific uses. Overall, there is a decrease of $1.8 million, with decreases in reserve/designations for the Registrar of Voters and Special Districts and an increase in the Workers' Compensation reserve (both years). In the second year of this Plan, there is no additional reserve designation for the new property tax system, a decrease of $2.1 million from Fiscal Year 2004-05, because the new system is expected to be acquired in Fiscal Year 2004-05.
- Operating Transfers Out, the accounting vehicle for transferring the resources of one fund to pay for activities in another, are decreasing by $41.0 million (6.52%). Previously paid from the Capital Outlay Funds, the County's lease payments on SANCAL bonds will now be paid from the General Fund, eliminating the need for operating transfers.
- Management Reserves are increasing slightly by $0.7 million (6.36%). The level of Management Reserves can vary from year-to-year. They are used to fund one-time projects or to serve as a prudent cushion for revenue and economic uncertainties at the Group/Agency level.

All Funds: Total Staffing

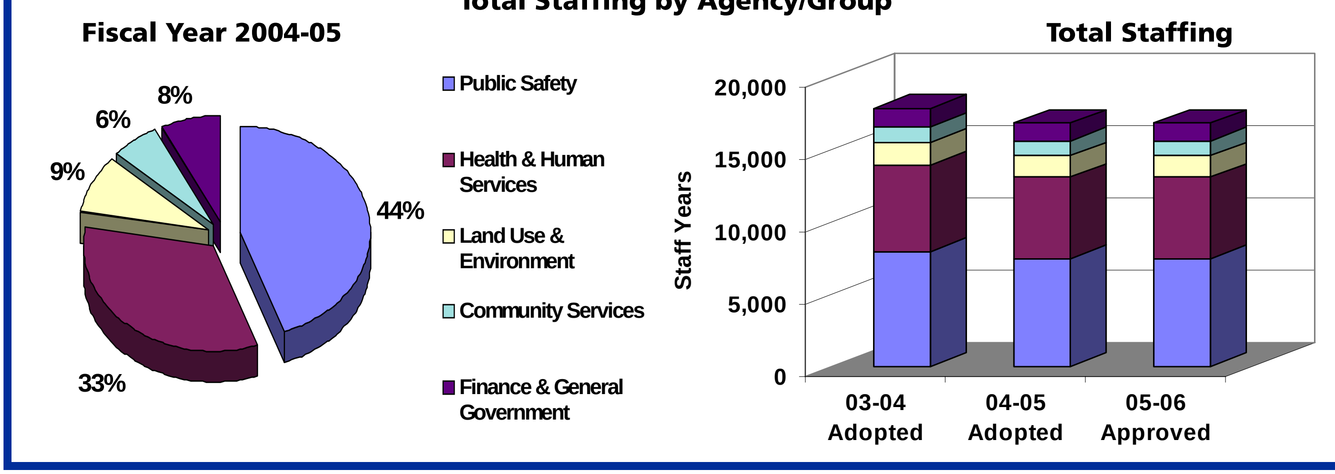
Total Staffing

The staffing level for Fiscal Year 2004-05 is 1,065.40 staff years less than the Adopted Budget for Fiscal Year 2003-04, a decrease of 5.95% to 16,836.87 staff years. A slightly further decrease of 3.50 staff years is expected in the second year of the Plan. The cutbacks in staffing levels adopted in this Operational Plan result from the confluence of three trends. The first trend is continuous improvement in efficiency and organizational structures as departments respond to changes in demand for services from internal and external customers. The other two trends are in opposition to each other:

— Decreased funding available for the provision of services due to the cascading effect on the County of the State's massive budget crisis, and

— Higher costs of doing business related to negotiated labor agreements and increasing demands for services based on population and caseload growth.

Total Staffing by Agency/Group



Staffing—Staff Years

	Fiscal Year 2003-2004 Adopted Budget	Fiscal Year 2004-2005 Adopted Budget	Fiscal Year 2005-2006 Approved Budget
Public Safety	7,916.00	7,470.50	7,470.50
Health & Human Services	6,054.27	5,620.62	5,620.62
Land Use & Environment	1,529.00	1,492.00	1,492.00
Community Services	1,099.25	986.25	986.25
Finance & General Government	1,303.75	1,267.50	1,264.00
Total	17,902.27	16,836.87	16,833.37

Last year's Operational Plan reduced staff years by 279.00 and acknowledged that the County's workforce was at an unsustainable level. We developed a strategy whereby some positions were deleted, some were frozen and others were temporarily funded to enable services to be ramped down in an orderly manner. That strategy continues into this year's Operational Plan; however, the loss of revenues due to the State's severe budget problems has increased the number of positions that need to be cut. While, through prudent management and in anticipation of the State funding cutbacks, many of the deleted positions were vacant, unfortunately 411 filled positions were eliminated. However, as a result of aggressive placement efforts, all but 45 employees were placed in other positions. The charts and table on the previous page show the total staff years by Group and the year-to-year changes.

The largest decrease in staff years is 445.50, in the Public Safety Group (PSG), with most of the cuts in Probation and the Department of Child Support Services, losses of 233.75 and 106.00 staff years, respectively. Losses in the Public Defender and Alternate Public Defender Departments total 73.00 staff years. The only PSG departments with additions to budgeted staff years are the Office of Emergency Services (2.00) and the Medical Examiner (1.00). The District Attorney and the Sheriff are "freezing" and removing funding for 127.00 and 205.00 staff years, respectively. In addition, the Sheriff staff years are decreasing by 32.75.

The highest percentage reduction is 10.28%, in the Community Services Group, 113.00 staff years. Most of the decrease is in General Services (100.50), with some of that staff transferred to Purchasing and Contracting, another support function within the Group. The County Library and the Department of Animal Services have decreases of 16.50 and 23.00 staff years, respectively.

The Land Use and Environment Group has a net decrease of 37.00 staff years, with over half occurring in the Department of Public Works. The Department of Agriculture, Weights, and Measures and the Department of Environmental Health each have cuts of 8.00 staff years.

The Departments of Parks & Recreation and the Department of Planning and Land Use each reflect an increase of 2.00 staff years.

All functional areas of the Health and Human Services Agency have decreases in staff years for an Agency total decrease of 433.65. Over half of the cuts are in Regional Operations and Regional Program Support, a total of 229.41. In addition, Child Welfare Services has a reduction of 95.25 staff years.

The Finance and General Government Group has a total reduction of 36.25 staff years, with the majority of the cuts coming from the support departments of Auditor and Controller (22.00), Human Resources (9.00), and County Counsel (2.00). The Chief Administrative Office and the County Technology Office are reducing 1.00 staff year each. In addition, the Board of Supervisors support staff decreases by 3.00 staff years. There are no changes to staffing for the Treasurer-Tax Collector and the Assessor/Recorder/County Clerk.

Labor Agreements

This plan includes the final two years of five-year salaries and benefits agreements for most of the County's bargaining units. Two bargaining groups have agreements that extend through Fiscal Year 2006-07. The agreements included base pay and health insurance adjustments as well as an enhanced retirement plan that took effect in March 2002, and resulted in higher ongoing retirement contribution rates by the County and by its employees as well.

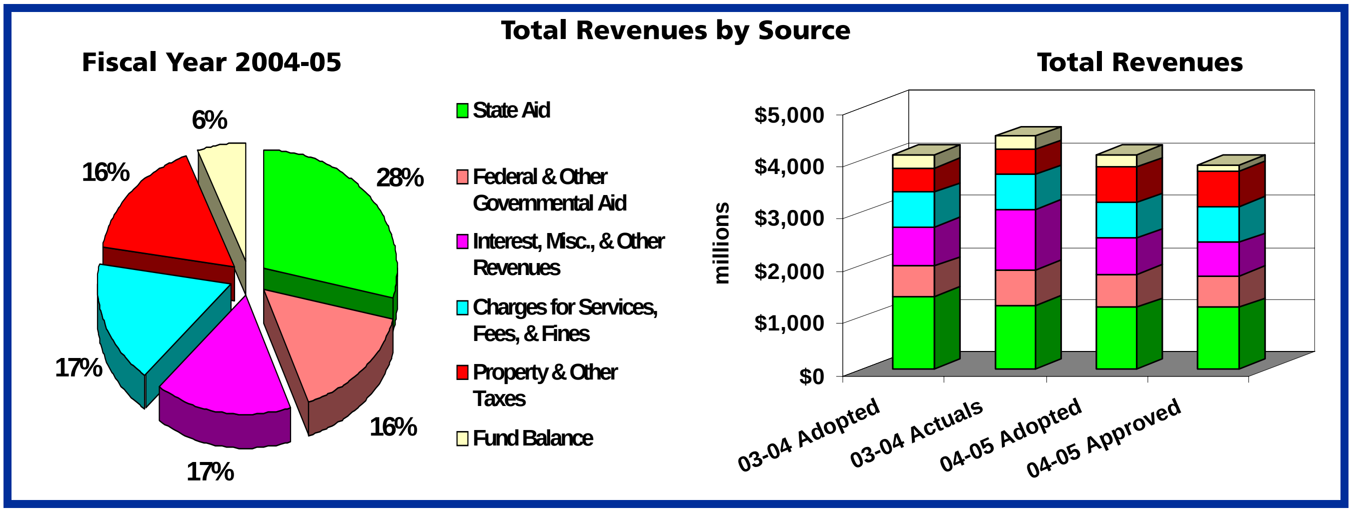
The San Diego County Employees Retirement Association (SDCERA) Board annually adopts actuarially determined contribution rates to maintain the funded status of the Retirement Fund. For Fiscal Year 2004-05, the County contribution rate is 25.59% of non-Safety employees' regular pay and 34.99% of Safety, up from 19.72% and 32.41%, respectively, in Fiscal Year 2003-04. The increases in the rates are the result of a combination of updated actuarial assumptions regarding the Plan's members, and the impact of investment losses on the fund. County employees also experienced an increase in the rates they pay toward retirement. While the rate increase for employees is dependent on the age at which they entered the retirement system, the overall average employee contribution rate increased by 0.95% of regular pay (from an average of 8.94% to 9.89%). Since the early 1980s the County has paid as a benefit a portion of the employee contribution. The offset amount depends upon the number of years of service with the County and labor contract provisions. The County-paid portion of the employee contribution averages about 6% of regular pay.

Fiscal Year 2003-04 was the first year that the cost of the enhanced retirement plan was reflected in the Operational Plan. For that year, the budgeted cost for the County's contribution plus the offset for employee contributions rose to $240.8 million from $61.6 million in Fiscal Year 2002-03. For Fiscal Year 2004-05, based on the rates developed by the SDCERA actuary, the Adopted Operational Plan includes $287.4 million to pay for the County's contribution and the offset for employees, for a total increase of $46.5 million. Although staff years are decreasing from Fiscal Year 2003-04, there is still an increase in the budgeted amount for retirement because of a combination of pay increases scheduled for Fiscal Year 2004-05 and the increase in the retirement contribution rates.

All Funds: Total Revenues

Total Revenues by Source

Total resources available to support County services for Fiscal Year 2004-05 are $4.09 billion. This is a decrease of $2.0 million or 0.05% from the Fiscal Year 2003-04 Adopted Operational Plan. Total resources are expected to decrease by an additional $191.9 million or 4.7% in Fiscal Year 2005-06. The State's budget actions are partially to blame for the loss of resources. In contrast, during the prior two fiscal years total County resources experienced a growth rate of 4.2% annually, including all sources of local, State and federal funding. For Fiscal Year 2004-05, State aid ($1.18 billion), federal aid ($549.3 million), and other intergovernmental aid ($87.4 million) combined will supply 44.4% of the financing sources for the County's budget. In comparison, locally generated taxes, including property tax, sales tax, real property transfer tax, and



Total Revenues by Source (in millions)

	Fiscal Year 2003-2004 Adopted Budget	Fiscal Year 2003-2004 Adjusted Actuals	Fiscal Year 2004-2005 Adopted Budget	Fiscal Year 2005-2006 Approved Budget
State Aid	$ 1,382.5	$ 1,209.8	$ 1,178.5	$ 1,172.9
Federal & Other Governmental Aid	578.1	683.7	636.7	610.3
Interest, Misc., & Other Revenues	747.8	1,152.5	678.9	627.3
Charges for Services, Fees, & Fines	661.2	666.1	682.3	691.1
Property & Other Taxes	465.5	479.9	671.5	686.0
Fund Balance/Reserves	255.1	255.1	240.4	108.7
Total	$ 4,090.2	$ 4,447.2	$ 4,088.2	$ 3,896.3

transient occupancy tax, account for only 15.9% of the financing sources for the County's budget. The remaining $1.6 billion in financing sources (39.7%) are generated at the federal, State, and local levels and include charges for current services, other financing sources, use of fund balance, and designation decreases, and other fund sources. The chart above summarizes the major sources of funding for County operations. See the individual Agency/Group sections of this Operational Plan for the breakdown of financing sources by department.

Economic Indicators

During 2001, the U.S economy experienced a mild recession as measured by the Gross Domestic Product (GDP) annual growth of only 0.3%. The economy continued to perform at a sluggish pace throughout 2002 and through the first part of 2003. GDP improved significantly in the third and fourth quarters of 2003, raising the annual GDP growth to 3.0%. Consumer spending jumped sharply in late 2003 boosting demand for domestic and imported goods. U.S. exports also started to grow again in late 2003. Much of the late 2003 spending was driven by the drop in mortgage interest rates and tax cuts. Higher energy prices in 2004 and a reduction in the intensity of housing activity are offsetting sustained domestic demand and investments. Overall, GDP growth is estimated at 4.3% and 3.3% for 2004 and 2005, respectively.

California's economy is finally moving up and out of a period of very weak growth. The unemployment rate has been inching down, taxable sales are stronger, job growth is starting to occur, and personal income is growing at a healthy rate. The technology bust hit California companies very hard for three years, with the loss of wage and salary income concentrated in the San Francisco Bay Area.

Despite the challenges from 2001 through 2003, San Diego's economy appears to have fared well in that it outperformed both the California and national economies in terms of the rate of economic growth. The local economic indicators, including San Diego's gross regional product, employment, and personal income, are suggesting a moderate growth rate. Local sales tax transactions have slowed somewhat to a 3.3% growth rate in 2003; however, the real estate market continues to be strong due to high demand and favorable low financing costs.

The estimated decline of 0.05% in total County resources for Fiscal Year 2004-05 consists of three general changes: declines in revenue as a result of the State's budget actions (partially offset by various general purpose and program revenue increases driven by local economic conditions); accounting changes that eliminate the double budgeting of blanket purchase orders and Lease Payments-Bonds; and reductions in the use of Fund Balance to support one-time appropriations.

State of California's Budget

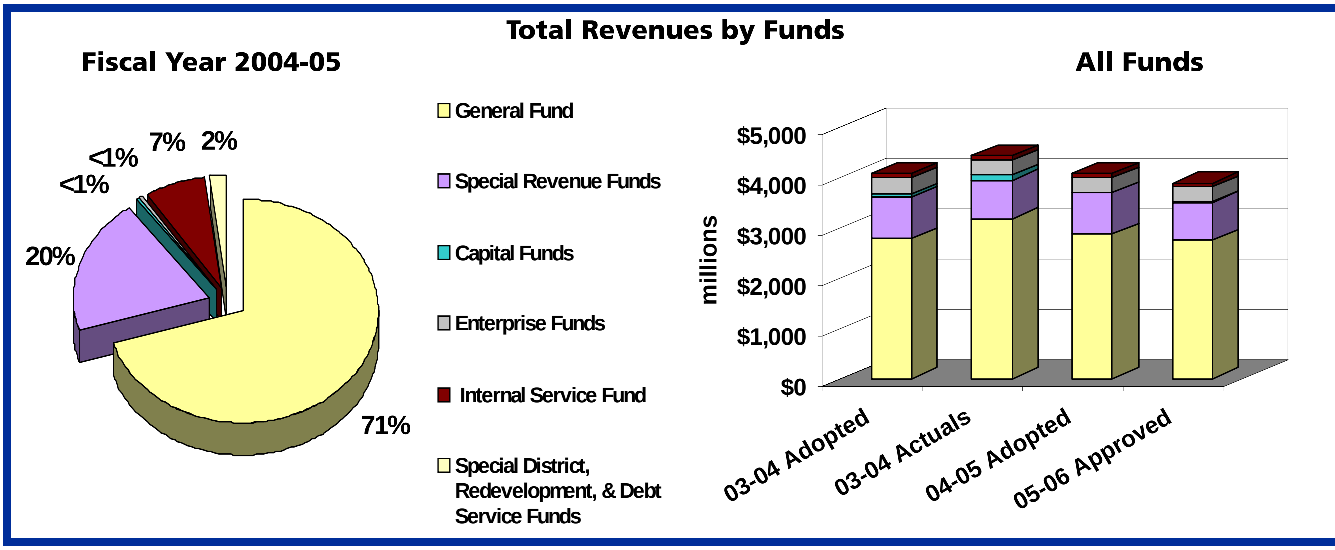
The State of California continues to have a serious budget problem despite the budget actions taken in 2004-05, which included program savings, the use of Proposition 57 bonds, other loans and borrowing, fund shifts, increased revenues and transfers, and diversions of local property taxes. With these measures, the County was able to allay reductions in Temporary Assistance to Needy Families (TANF) when the State provided State General Revenue for one year, avoid reductions in booking fee revenue provided to the Sheriff's Department, and avoid cuts in Child Support Services. However, the property tax shift alone means a loss of $27.5 million in General Purpose Revenues or 7.6% of the property taxes we would otherwise expect to receive in Fiscal Year 2004-05. These revenues are used to fund local discretionary programs in such areas as public safety, parks, libraries, public health and general government as well as to fund matching requirements for State and federal programs.

According to the assessment of the State's Legislative Analyst Office, the current spending plan, like the two prior State budgets, contains a significant number of one-time or short-term solutions and it obligates spending in future years. Out-year shortfalls are estimated to exceed $6 billion in 2005-06 and over $8 billion in 2006-07.

Despite these State issues, we continue to focus on meeting the objectives of the three Strategic Initiatives. The County will continue to monitor the State's budget developments closely and we will work aggressively to protect revenues for local services. Proposition 1A, which was approved by voters on the November 2, 2004 ballot, will protect local government revenues. It will prohibit the Legislature from permanently reducing the percentage of property tax revenues received by counties, cities, and special districts on a countywide basis and it would ensure that Vehicle License Fee (VLF) revenues would continue to be dedicated to cities and counties, with the bulk of collected revenues dedicated to Realignment. Among other changes, it also clarifies that the Legislature must appropriate funds for State reimbursable mandates or suspend the provisions of these mandates.

Total Revenues by Funds

The financial transactions of the County are recorded in individual funds and account groups. The State Controller prescribes uniform accounting practices for California counties. Various revenue sources are controlled and spent for purposes that require those funds to be accounted for separately. Accordingly, the following funds/fund types provide the basic structure for the Operational Plan. (See also "Basis of Accounting" on page 53 and "Appropriations by Fund" on page 433.)



Total Revenues by Funds
(in millions)

	Fiscal Year 2003-2004 Adopted Budget	Fiscal Year 2003-2004 Adjusted Actuals	Fiscal Year 2004-2005 Adopted Budget	Fiscal Year 2005-2006 Approved Budget
General Fund	$ 2,785.1	$ 3,178.0	$ 2,869.6	$ 2,749.0
Special Revenue Funds	814.5	764.7	814.0	755.2
Capital Funds	67.8	107.7	8.2	3.4
Enterprise Funds	20.7	21.2	17.1	14.4
Internal Service Funds	324.0	297.1	295.4	295.4
Special District, Redevelopment, & Debt Service Funds	78.1	78.4	84.0	79.0
Total	$ 4,090.2	$ 4,447.2	$ 4,088.2	$ 3,896.3

Governmental Fund Types

General Fund — accounts for all financial resources except those required to be accounted for in another fund. The General Fund is the County's primary operating fund.

Special Revenue Funds — account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes (other than for major capital projects). Examples include Road, Library, Realignment, and Proposition 172 revenue funds.

Capital Project Funds — account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds.)

Debt Service Funds —- account for the accumulation of resources for, and the payment of, principal and interest on general long-term debt.

Proprietary Fund Types

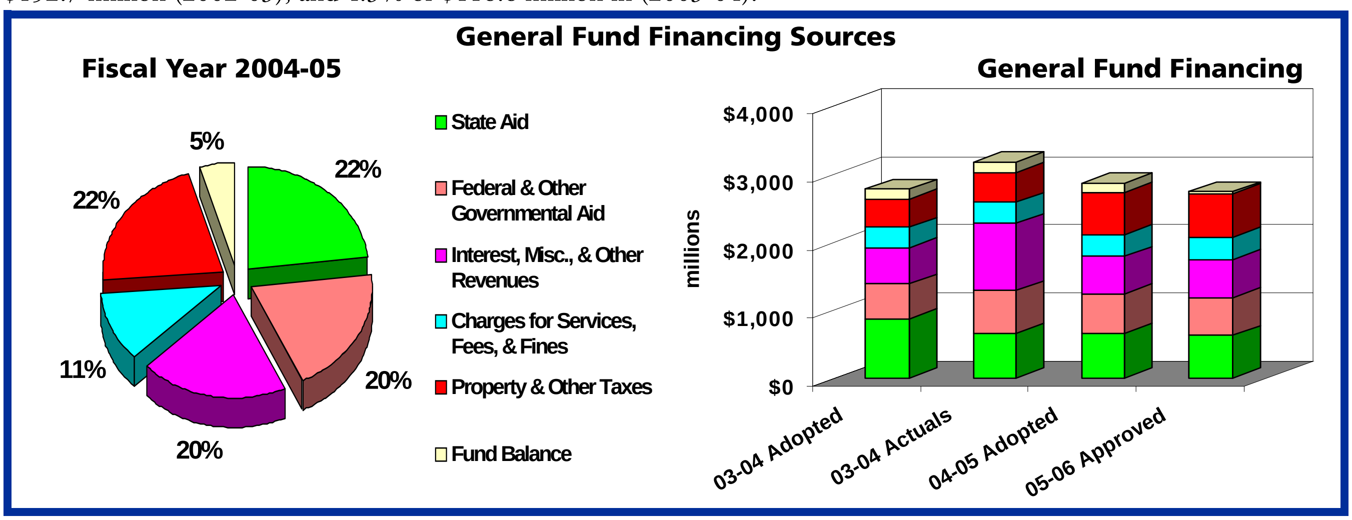
Enterprise Funds —- account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds —- account for the financing of goods or services provided by one department to other departments of the County, or to other governmental units, on a cost-reimbursement basis. Examples include the Facilities Management, Fleet, Purchasing and Contracting, and Information Technology Internal Service Funds.

Summary of General Fund Financing Sources

Summary of General Fund Financing Sources

The largest single fund and the fund that is responsible for most County services is the General Fund. General Fund Financing Sources total $2.87 billion for Fiscal Year 2004-05, a $84.5 million or 3.0% increase from Fiscal Year 2003-04. Total General Fund resources are expected to decrease by $120.6 million or 4.2% in Fiscal Year 2005-06. The lower growth rate for Fiscal Year 2004-05 and negative growth rate for Fiscal Year 2005-06 show a trend of decreasing growth rates particularly considering the last three fiscal years, which saw growth rates of 9.1% or $210.2 million (2001-02), 6.1% or $152.7 million (2002-03), and 4.3% or $116.6 million in (2003-04).

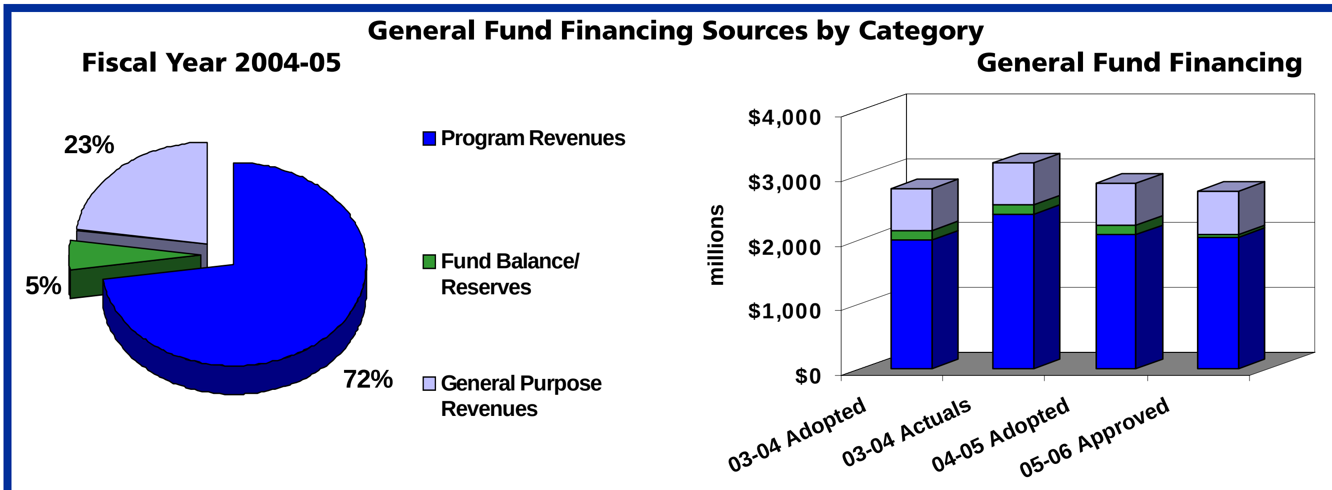


General Fund Financing Sources (in millions)

	Fiscal Year 2003-2004 Adopted Budget	Fiscal Year 2003-2004 Adjusted Actuals	Fiscal Year 2004-2005 Adopted Budget	Fiscal Year 2005-2006 Approved Budget
State Aid	$ 878.3	$ 658.2	$ 660.6	$ 634.9
Federal & Other Governmental Aid	513.4	634.9	577.9	552.8
Interest, Misc., & Other Revenues	534.8	988.3	560.5	565.9
Charges for Services, Fees, & Fines	293.6	309.8	319.7	323.9
Property & Other Taxes	415.7	437.6	617.8	640.1
Fund Balance	149.2	149.2	133.2	31.5
Total	$ 2,785.1	$ 3,178.0	$ 2,869.6	$ 2,749.0

General Fund Financing Sources by Category

General Fund Financing Sources can be categorized as one of three types: Program Revenues, General Purpose Revenues, or Fund Balance (including reserve/designation decreases).



General Fund Financing Sources by Category (in millions)

	Fiscal Year 2003-2004 Adopted Budget	Fiscal Year 2003-2004 Adjusted Actuals	Fiscal Year 2004-2005 Adopted Budget	Fiscal Year 2005-2006 Approved Budget
Program Revenues	$ 1,989.3	$ 2,394.8	$ 2,078.9	$ 2,037.1
Fund Balance/Reserves	149.2	149.2	133.2	31.5
General Purpose Revenues	646.6	634.0	657.4	680.4
Total	$ 2,785.1	$ 3,178.0	$ 2,869.6	$ 2,749.0

Program Revenues, total $2.08 billion in Fiscal Year 2004-05. These revenues make up 72.4% of General Fund Financing Sources in Fiscal Year 2004-05, and are derived from State and federal subventions and grants, charges and fees earned from specific programs, Proposition 172- Public Safety Sales Tax, State Realignment Funds, and Tobacco Settlement funds, among others. Program Revenues, which as the name implies, are dedicated to and can be used only for specific programs, are expected to increase by 4.5% over the Fiscal Year 2003-04 Adopted Budget. The average annual growth for the last three years was 5.5%. State and federal funds of $1.17 billion in Fiscal Year 2004-05 comprise 56% of Program Revenues. It is important to note that federal revenues are estimated to increase by 11.3% or $52.4 million from the Adopted Fiscal Year 2003-04 level, but State revenues are estimated to be 3.3% lower ($22.8 million) than the Fiscal Year 2003-04 Adopted Budget. This is directly attributed to the weakened State economy and budget actions by the State. This is particularly significant for the Health and Human Services Agency

(HHSA), which is funded predominantly by federal and State subventions, because over 86% or $1.0 billion of the State and federal revenues received by the General Fund support the HHSA programs specifically. State funding for various health and social services programs is estimated to be 3.7% less ($22.2 million) than the Adopted Fiscal Year 2003-04 level.

Other Significant Program Revenues include:

- **Tobacco Settlement Revenues** ($32.1 million in Fiscal Year 2004-05 and $23.3 million in Fiscal Year 2005-06) by Board policy are dedicated to health-based programs. These revenues are the result of the historic Master Settlement Agreement between the Attorneys General of California and several other states and the four major tobacco companies in 1998. The agreement provided over $206 billion in Tobacco Settlement Payments over 25 years in exchange for the release of all past, present, and future claims related to the use of tobacco products. California agreed to distribute its share of the settlement to its counties based on population.

  To reduce the risk of non-receipt of the Tobacco Settlement Payments, some counties and states have opted to securitize these payments. Securitization is a process whereby the owner of the receivable sells the right to that income stream to a third party in exchange for an up-front payment. The County of San Diego helped to pioneer this process and received $466 million in January 2002 in exchange for its Tobacco Settlement Payments. These proceeds will enable the County to fund approximately $27.3 million of health care programs annually through 2020. The $32.1 million anticipated to be utilized in Fiscal Year 2004-05 reflects $8.4 million in one-time, non-securitized Tobacco Settlement funds and $23.7 million in Securitized Tobacco funds.

- **Realignment Revenues**, ($280.9 million in Fiscal Year 2004-05 and $282.2 million in Fiscal Year 2005-06) are received from the State to support health, mental health, and social services programs. The term Realignment refers to the transfer in 1991 of responsibility from the State to counties for certain health, mental health, and social services programs, along with the provision of dedicated sales tax and vehicle license fee (VLF) revenues to pay for these changes. While generally considered successful, the slowdown in the economy caused the dedicated revenue stream to lag caseload growth. The annual growth from Fiscal Year 2000-01 to Fiscal Year 2002-03 was only 1.3%. Presently, a moderate economic recovery is underway. For Fiscal Years 2004-05 and 2005-06, combined sales tax and vehicle license fee projected growth is 3.8% and 3.7%, respectively. In Fiscal Year 2004-05, the combined growth rate is broken down as follows: Sales Tax growth is projected at 6.2% while Vehicle License Fee revenues are expected to decline by 0.4%.

  Despite the changes to the County's general purpose vehicle license fee revenues, State Vehicle License Fee revenue for Realignment will continue. Please see the Vehicle License Fee revenue discussion in the General Purpose Revenue section.

- **Proposition 172-Public Safety Sales Tax Revenues** ($202.0 million in Fiscal Year 2004-05 and $213.3 million in Fiscal Year 2005-06) support programs and services of three departments in the Public Safety Group - the Sheriff, District Attorney and Probation. The revenues derive from a one-half cent increase in the statewide sales tax that was approved by the voters in 1993 and distributed to counties and cities based on the relative levels of taxable sales in each county to the total taxable sales in all qualified counties. During Fiscal Years 1999-00 and 2000-01 these revenues grew at a healthy rate of 16.1% and 8.4%, respectively. In Fiscal Year 2001-02, revenues generated were 4.2% below actuals received in Fiscal Year 2000-01 due to reduced statewide taxable sales. In 2002-03, the revenues increased by 6.1%. The 2003-04 actual revenues reflect a 10.29%

increase over Fiscal Year 2002-03 actual revenue. For Fiscal Years 2004-05 and 2005-06, growth rates of 5.5% and 5.6% are projected, respectively.

General Purpose Revenues ($657.4 million in Fiscal Year 2004-05 and $680.4 million in Fiscal Year 2005-06) make up 22.9% of General Fund Financing Sources. Please see the separate discussion of General Purpose Revenues beginning on the following page.

Fund Balance ($133.2 million in Fiscal Year 2004-05 and $31.5 million in Fiscal Year 2005-06), including reserve/designation decreases, represents 4.6% of General Fund Financing Sources in Fiscal Year 2004-05. This resource is used for one-time expenses, not for the support of ongoing operations. Fund Balance is the result of careful management of resources Countywide in past years. The County of San Diego's unreserved, available Fund Balance was $225.9 million in Fiscal Year 2000-01, $234.6 million in Fiscal Year 2001-02, and $269.0 million in Fiscal Year 2002-03. In Fiscal Year 2003-04, a calculated but unaudited General Fund fund balance of $217.9 million was realized.

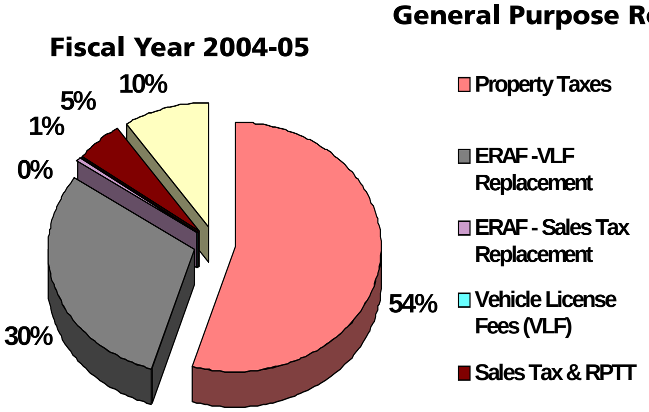
In the Adopted Operational Plan, General Fund fund balance is used as the funding source for various one-time or project specific purposes such as defeasing the remaining 1994 Pension Obligation Bonds, rebudgeting of appropriations for the purchase of the Fire/Life/Safety helicopter, rebudgeting funds for the East Mesa Juvenile Detention Facility due to delays in 2003-04, funding consultant contracts for the Multiple Species Conservation Program and General Plan 2020 projects, offsetting the costs for processing building permits for victims of Firestorm 2003, completing major maintenance projects, providing matching funds for one-time grants, decommissioning legacy software applications, providing transitional funding for certain services until final decisions can be made regarding ongoing service levels, purchasing fixed assets and minor equipment, awarding community projects grants, and establishing management reserves.

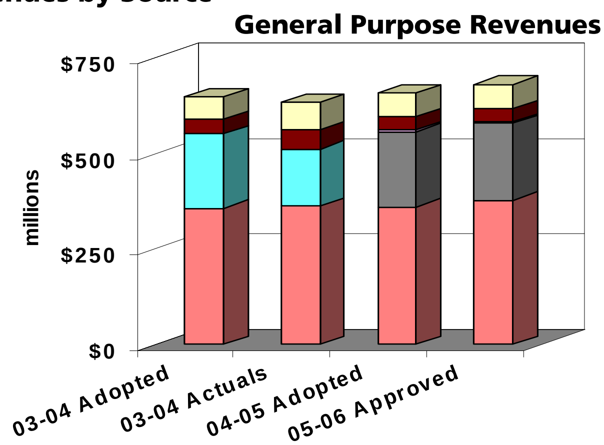
General Purpose Revenues

General Purpose Revenues by Source

General Purpose Revenues for Fiscal Year 2004-05 and Fiscal Year 2005-06 are $657.4 million and $680.4 million respectively. This represents approximately 22.9% of General Fund Financing Sources. The revenues come from property taxes, vehicle license fee (VLF) property tax compensation, sales taxes (and property tax in lieu of sales tax), real property transfer tax (RPTT), and miscellaneous other sources. They may be used for any purpose that is a legal expenditure of County funds. The Board, therefore, has the greatest flexibility in allocating these revenues. All of these revenues are directly affected by the local and State economies. San Diego's economy has outperformed both State and national growth in recent years; this has been reflected in the County's General Purpose Revenues with a 6.5% annual average growth for Fiscal Years 2000-01 through 2003-04. These increases were the result of solid local employment, rising income levels, and population growth. We had expected this growth rate to continue into Fiscal Years 2004-05 and 2005-06 but the State of California's

General Purpose Revenues by Source





General Purpose Revenues by Source (in millions)

	Fiscal Year 2003-2004 Adopted Budget	Fiscal Year 2003-2004 Adjusted Actuals	Fiscal Year 2004-2005 Adopted Budget	Fiscal Year 2005-2006 Approved Budget
Property Taxes	$ 356.2	$ 360.8	$ 359.5	$ 376.6
ERAF -VLF Replacement	0.0	0.0	196.9	200.9
ERAF - Sales Tax Replacement	0.0	0.0	5.1	5.3
Vehicle License Fees (VLF)	195.0	150.8	0.0	0.0
Sales Tax & RPTT	37.0	49.7	33.4	34.3
Other Revenues	58.4	72.7	62.5	63.3
Total	$ 646.6	$ 634.0	$ 657.4	$ 680.4

Fiscal Year 2004-05 Budget shifts $27.5 million in County property taxes to schools in each of those two years. For this planning period, an overall growth rate of 1.7% is estimated ($10.8 million) compared to the Fiscal Year 2003-04 Adopted Operational Plan. Two changes have been made by the State that reclassifies all of the general purpose VLF revenue and about a fourth of the sales tax revenues received by the County. More detail is provided below:

Property Tax Revenues, ($359.5 million in Fiscal Year 2004-05 and $376.6 million in Fiscal Year 2005-06), including current secured and unsecured, at 54.7% of the total, are the most significant source of General Purpose Revenues. For the last four years local secured growth has been high (8.1% average annual growth) due to the County's strong overall economy and healthy real estate markets. At present, real estate activity is still strong due to stable low mortgage rates, the limited supply of housing for sale, and the area's population growth. Property tax assessments are based on the value of County real and personal property. As noted above, the County anticipates a $27.5 million property tax revenue loss beginning in Fiscal Year 2004-05 based on the State of California's budget. Property tax revenues in Fiscal Year 2004-05 are forecast to be $3.3 million higher adjusting for the above mentioned budget changes. With projected moderate growth in employment and income levels, property tax revenue growth of 4.8% or $17.1 million is expected in Fiscal Year 2005-06.

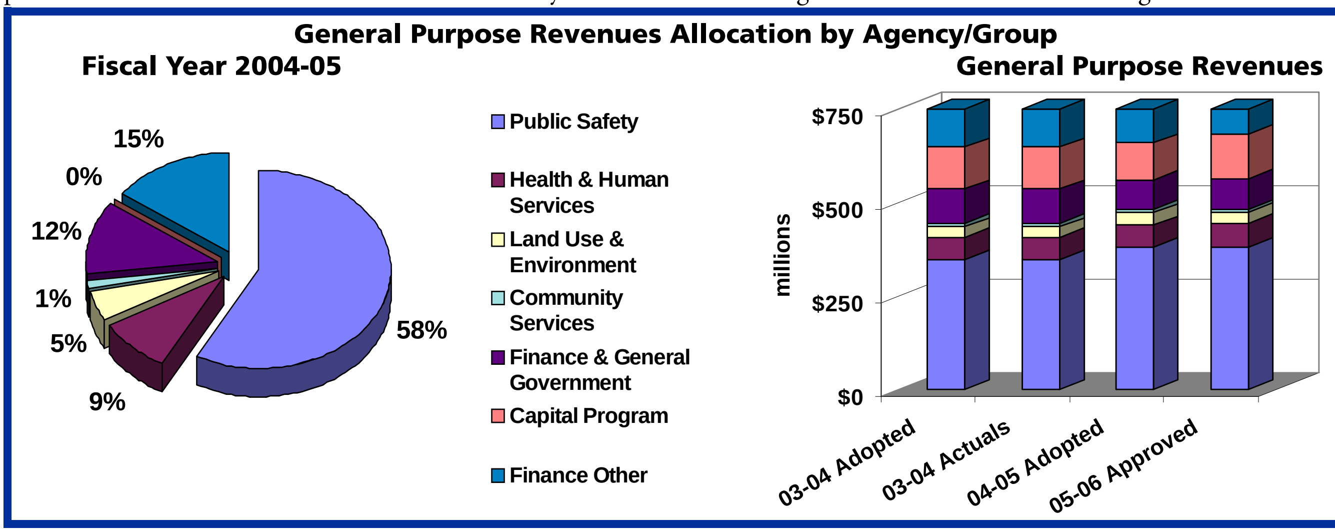
Vehicle License Fees (VLF) Property Tax Compensation. Beginning in Fiscal Year 2004-05, the County's share of Vehicle License Fee general purpose revenue is eliminated and replaced with money shifted back from the County's Educational Revenue Augmentation Fund (ERAF). The ERAF is the fund required to be set up by the State in Fiscal Year 1992-93 to capture the prescribed amounts of property tax to be shifted from local governmental agencies to local schools. This new funding arrangement is the result of the State of California's Fiscal Year 2004-05 budget actions and the signing of SB 1099. More specifically, the passage of SB 1099 made the following changes to the previous laws: eliminated the current VLF "offset" mechanism and permanently set the VLF rate at 0.65% as of January 1, 2005, eliminated VLF "backfill" payments along with the "trigger" provision in current law, replaced VLF backfill payments to cities and counties with property tax revenues shifted back from ERAF via a new VLF Property Tax Compensation Fund to be established by each county, established initial allocations for 2004-05 to each city and each county from the VLF Property Tax Compensation Fund, and provided for allocations in 2005-06 to be calculated based on a formula that takes into account adjusted actual allocations for Fiscal Year 2004-05 and the increase in gross taxable assessed value within each city or each county. This VLF/ERAF swap of funds follows State action during Fiscal Year 2003-04 to suspend VLF backfill payments during the first three months of that year. By August 2006 (Fiscal Year 2006-07), the State is required to make a one-time payment to counties and cities to make up for that suspension. The "loan" amount to be repaid to the County of San Diego is approximately $60.0 million.

Sales Tax Revenue, ($15.5 million in Fiscal Year 2004-05 and $15.9 million in Fiscal Year 2005-06) represents about 2.4% of General Purpose Revenues and is derived from taxable sales by businesses located in unincorporated County areas. Its growth is generally impacted by population and income but is primarily due to economic development and new business formation in the County. These amounts show a reduction from Fiscal Year 2003-04, but it is due to a reclassification of about one-fourth of the sales tax revenue ($5.15 million in Fiscal Year 2004-05) to "property taxes in lieu of sales tax" to comply with the State's "triple flip" legislation approved in Fiscal Year 2003-04. More specifically, effective July 1, 2004, provisions of AB7 X1, one of the 2003-04 State budget bills referred to as the "triple flip", took effect. It enabled the State to redirect one-quarter cent of the local sales and use tax to the State to repay up to $15 billion in bonds authorized by Proposition 57 (March 2004) to help the State refinance its past debt. In turn, the lost revenues are replaced on a dollar-for-dollar basis with countywide property tax revenues shifted back from the Educational Revenue Augmentation Fund (ERAF). Retail sales remain relatively strong in the unincorporated area with a before-triple-flip-adjustment sales tax growth of $0.6 million (3.0%) over the Fiscal Year 2003-04 Operational Plan in Fiscal Year 2004-05. Sales Tax growth, including the triple flip adjustment amount, in Fiscal Year 2005-06 is anticipated to be $0.6 million (3.0%) over Fiscal Year 2004-05.

Real Property Transfer Tax Revenue (RPTT) for Fiscal Year 2004-05 is expected to reach $18 million, a 5.9% increase over the Fiscal Year 2003-04 Adopted Operational Plan ($17 million), reflecting growth primarily in residential activity as well as in industrial and retail real estate activity. An increase of $0.36 million or 2.0% is expected in Fiscal Year 2005-06. The Real Property Transfer Tax is paid when any lands, tenements, or other realty exceeding $100 in value are sold and granted, assigned, transferred or conveyed to the purchaser. The tax rate, set by the State, is $1.10 per $1,000 of assessed valuation. The County collects 100% of all the transactions in the unincorporated area and 50% of the transactions in the incorporated areas.

Allocation of General Purpose Revenues by Group

General Purpose Revenues are allocated annually based on the strategic direction of the County as set by the Board of Supervisors. They are used to provide services or programs where program revenues are either limited or non-existent. The Public Safety Group, at 28% of the County's total budget, is proposed to spend 58% of the County's General Purpose Revenues. By contrast, the Health and Human Services Agency's budget represents 43% of the County total, but is proposed to receive 9% of the General Purpose Revenues. These allocation decisions are the result of a combination of available program revenues, federal/State service delivery mandates, and priorities set by the Board of Supervisors. The Public Safety Group provides services that receive limited federal and State funding, while the Health and Human Services Agency provides services that are mandated at some level by the federal and State governments and thus receive significant



General Purpose Allocations by Agency/Group (in millions)

	Fiscal Year 2003-2004 Adopted Budget		Fiscal Year 2003-2004 Adjusted Actuals		Fiscal Year 2004-2005 Adopted Budget		Fiscal Year 2005-2006 Approved Budget	
Public Safety	$	345.8	$	345.8	$	379.5	$	381.4
Health & Human Services		59.5		59.5		58.9		61.9
Land Use & Environment		29.3		29.3		33.3		29.4
Community Services		10.1		10.1		8.6		8.8
Finance & General Government		90.1		90.1		77.8		80.7
Capital Program		0.0		0.0		0.0		0.0
Finance Other		111.7		111.7		99.4		118.1
Total	$	646.6	$	646.6	$	657.4	$	680.4

amounts of Program Revenue. The above chart shows the General Purpose Revenues to be used to support each Agency/Group for Fiscal Years 2004-05 and 2005-06.

Capital Projects

Capital Projects

The Capital Program Funds include appropriations for new capital projects as well as previously approved but not yet completed capital projects. The following chart depicts the distribution of those appropriations.

Capital Appropriations

	Dollar Amount	Number of Projects
Appropriation Increases for New & Existing Capital Projects (2004–2005)		
Capital Outlay Fund	$ 829,300	6
Justice Facility Construction Fund	2,000,000	1
Total—New Projects	$ 2,829,300	7
Projects Underway		
Public Safety Group	$ 10,566,299	17
Health & Human Services Agency	9,478,979	7
Land Use & Environment Group	45,680,485	105
Community Services Group	16,499,111	20
Finance & General Government Group	2,435,949	3
Total—Projects Underway	$ 84,660,823	152
Grand Total	$ 87,490,123	159

The Capital Program section of this Operational Plan on page 381 details new projects and projects underway, and includes a schedule of lease-purchase payments related to previously completed debt financed projects.

Projected Reserves and Resources

Projected Reserves and Resources

The County maintains a prudent level of reserves for various purposes. The tables below display the reserves and other available resources and fund balance designations as of July 1, 2003 and July 1, 2004.

Projected County Reserves and Resources (in millions)

	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget
General Reserve	$ 55.5	$ 55.5
General Fund Contingency Reserve-Operations	11.0	15.6
Agency/Group Management Reserves	11.0	11.7
Debt Service Reserves	27.0	23.4
Environmental Trust Fund Reserves	89.2	84.1
Endowment Fund Tobacco Securitization SR	366.1	346.5
Workers' Compensation Reserve	32.0	34.0
Public Liability Reserve	19.5	19.5
Total County Reserves and Resources	$ 611.3	$ 590.3

Fund Balance Designations (General Fund only)

	Fiscal Year 2003-04 Adopted Budget	Fiscal Year 2004-05 Adopted Budget
Designated-E10K Complex	$ 8.7	$ 5.4
Designated-ERP Property Tax	7.8	10.4
Designated-Sheriff Cap PJ	3.0	3.0
Designated-Dept. of Voter Registration	1.2	0.5
Designated-Planning and Land Use	1.8	2.0
Designated-Environmental Health	0.0	2.4
Total Fund Balance Designations	$ 22.5	$ 23.7

General Reserve— The $55.5 million is set aside for any unforeseen catastrophic situations. By law, except in cases of a legally declared emergency, the General Reserve may only be established, cancelled, increased or decreased at the time of adopting the budget.

General Fund Contingency Reserve— The Contingency Reserve is appropriated for unforeseen economic and operational uncertainties during the fiscal year.

Agency/Group Management Reserves— Appropriations established at the Agency/Group or department level to fund unanticipated items during the fiscal year.

Debt Service Reserves— These amounts represent the portion of bond proceeds for various County certificates of participation that are set aside in a reserve. These amounts provide assurance to the certificate holder that amounts are available in a reserve should the County not be able to make a lease payment from currently budgeted resources.

Environmental Trust Fund Reserves— Proceeds from the sale of the County's Solid Waste System on August 12, 1997 were set aside in trust to fund inactive/closed site management for approximately 30 years.

Tobacco Securitization Endowment Fund— The County established the Tobacco Securitization Endowment Fund in January 2002 in exchange for the Tobacco Settlement Payments. Based on current assumptions of portfolio yield, these proceeds will enable the County to fund approximately $27.3 million of health care programs annually through 2020.

Workers' Compensation Reserve— Established for Workers' Compensation Claims liability. This reserve is reviewed annually. For each of the Fiscal Years 2004-05 and 2005-06, $2.0 million will be added to the Workers' Compensation Reserve.

Public Liability Reserve— Established to reflect contingent liabilities. An annual assessment is done to validate that the County is maintaining sufficient reserves based on actuarial information.

Fund Balance Designations (General Fund only)— The Board has determined from time to time that certain amounts of fund balance be designated for particular purposes. Balances can increase or decrease depending upon whether the funds are being accumulated for later use or are being used because of fluctuating workloads or to make scheduled payments over a limited time. The current designations include the following:

- **Designated-E10K Complex—** This designation is for the first few years of the maintenance and support costs for the Enterprise Resource Planning system server complex as the County transitions from its previous mainframe and legacy systems environment.
- **Designated-ERP Property Tax System—** This designation is for the future financing of a new property tax system. It is anticipated that the County will finance a new system in Fiscal Year 2004-05.
- **Designated-Sheriff Cap Project—** Established in Fiscal Year 1999-2000, this designation set aside revenue for future departmental capital expenditures.
- **Designated-Dept. of Voter Registration-**—The $1.2 million designation was established in Fiscal Year 2003-04 to provide sustained funding for those election years with few billable participating jurisdictions. In 2004-05, the department will use $0.75 million due to the loss of funding from the State for SB90 Mandated Activities.
- **Designated-Planning and Land Use—** The Building/ Code Enforcement designation is set aside to balance revenue to costs for work in progress in coming fiscal years. The designation ensures that excess revenue over cost paid by Department of Planning and Land Use (DPLU) customers is used only to fund expenses related to building permit activities.
- **Designated-Environmental Health—** In Fiscal Year 2003-04, the Department of Environmental Health (DEH) established the fund balance designation to set aside any excess revenue over cost each fiscal year for use in a subsequent fiscal year when costs exceed revenue. The designation ensures that excess revenue over cost paid by DEH customers is used only to fund expenses in DEH.

Long- and Short-Term Financial Obligations

Long- and Short-Term Financial Obligations

The County has no outstanding general obligation bonds. The County's outstanding long-term principal bonded debt as of June 30, 2004 is:

Outstanding Principal Bonded Debt (in millions)

	Dollar Amount	
Certificates of Participation	$	378.3
Pension Obligation Bonds		1,268.9
Redevelopment Agency Revenue Bonds		4.4
Total	$	1,651.6

Long-Term Obligations

Certificates of Participation were first used in 1955 with the financing of the El Cajon Administrative Building. Since then, the County has made use of various lease arrangements with certain financing entities such as joint powers authorities, the San Diego County Capital Asset Leasing Corporation, or similar nonprofit corporations. Under these arrangements the financing entity usually constructs or acquires capital assets with the proceeds of lease revenue bonds or certificates of participation and then leases the asset or assets to the County.

Taxable Pension Obligation Bonds were first issued by the County in February 1994 to pay the County's unfunded actuarial accrued liability (UAAL) for the fiscal year ending June 30, 1994.

The County of San Diego implemented an improved retirement plan on March of 2002. The County's UAAL increased as a result. The County then issued $737 million of taxable pension obligation bonds on October 3, 2002. The County made a $550 million contribution to the San Diego County Employees Retirement System to reduce the UAAL. The remaining proceeds were used to escrow a portion of the County's 1994 Pension Obligation Bonds in order to take advantage of the lower interest rates, and to pay for related costs of issuance.

The County of San Diego issued new Taxable Pension Obligation Bonds (POB) in the amount of $454.1 million in June 2004 of which $450.0 million was paid to the Retirement Fund, thus reducing the unfunded accrued actuarial liability. The remaining proceeds were use to pay for related cost of issuance. The debt service payments on these (POBs) will take the place of the annual debt service on the 1994 POBs.

On September 27, 2004, the County of San Diego (the "County") deposited with BNY Western Trust Company (the "Trustee") approximately $63.5 million (the "Deposit"), of which $45.9 million was General Fund money. Such funds were invested in an Investment Agreement (the "Investment Agreement") entered into by the Trustee and an obligor. The obligations of the obligor under the Investment Agreement are guaranteed by American International Group, Inc. ("AIG"), which has been assigned long-term credit rating from Moody's Investors Service and Standard & Poor's Rating Services of "Aaa" and "AAA," respectively. Under the Investment Agreement, the obligor will make payments to the Trustee in July of each of 2005, 2006, and 2007 in amounts which will be sufficient to meet the County's remaining annual payment obligations to a counterparty under a Debt Service Forward Sale Agreement (the "Forward Agreement") currently in effect for the County's Taxable Pension Obligation Bonds, Series A (the "1994 POB Bonds") until the final maturity of the 1994 POB Bonds on August 15, 2007. In exchange for the County's annual payments, the Forward Agreement requires the counterparty thereto to deposit securities (which must be non-callable obligations issued or guaranteed by the United State of American or certain instrumentalities or agencies of the United States of America) into the Bond Fund relating to the 1994 POB Bonds the cash flows of which are sufficient to pay each scheduled payment of principal of and interest on the 1994 POB Bonds during the applicable fiscal year.

The 1994 POB Bonds will remain outstanding until their regularly scheduled maturities; if the obligor under the Investment Agreement, and AIG under its related guaranty, or the counterparty to the Forward Agreement defaults in its respective obligations for any reason, the County remains obligated to make any affected payment of principal of and interest on the 1994 POB Bonds.

Redevelopment Agency Revenue Bonds were issued in 1995 and are obligations of the Agency. The proceeds were used to finance the Agency's capital improvements.

Short-Term Obligations

The County's short-term financing obligations consist of two components:

Tax and Revenue Anticipation Notes (TRANS) borrowing for Fiscal Year 2004-05 were issued in the principal amount of $360 million. The notes are issued for the purpose of financing the County's seasonal cash flow requirements. The note will mature on July 25, 2005. A similar amount is projected in Fiscal Year 2005-06.

Short-Term Teeter Obligation notes are secured by future collections of delinquent property taxes and are used to provide various taxing agencies the amount of their property taxes without regard to such delinquencies. For Fiscal Year 2004-05, based on outstanding balances for current Teeter Obligation notes and projected tax revenues, approximately $61.1 million will be borrowed for this purpose.

Credit Rating and Long-Term Obligation Program

Credit Rating and Long-Term Obligation Program

The County of San Diego's credit ratings are:

Credit Ratings

	Moody's	Standard & Poor's	Fitch IBCA, Duff & Phelps
Certificates of Participation	A1	AA-	AA-
Pension Obligation Bonds	Aa3	AA-	AA-
Issuer Credit Rating	Aa2	AA	
Pool		AAAf/S1	

Credit Rating

The last long-term review by two of the three rating agencies was during the issuance of the County's October 2002 Taxable Pension Obligation Bonds. Standard and Poor's reviewed the County's long-term ratings in April 2004. There has been no change in the County's long-term ratings. The last short-term analysis by the rating agencies was during the May and June 2004 short-term program whereby the County received ratings of MIG1, SP-1+ from Moody's and Standard & Poor's, respectively. These are the highest short-term ratings possible.

In their analysis, Moody's states that while all California counties are likely to experience financial pressures as a result of the State's fiscal crisis, San Diego County appears comparatively well positioned to meet these challenges by virtue of its careful management and healthy financial position. Standard & Poor's stated that the County's financial operations remain strong.

The San Diego County Investment Pool continues to hold an AAAf/S1 rating from Standard & Poor's. The rating reflects the extremely strong protection the pool's portfolio investments provide against losses from credit defaults. The pool invests primarily in 'AAA' or 'A-1/P-1/ F-1' rated securities. The 'S1' volatility rating signifies that the pool possesses low sensitivity to changing market conditions given its low-risk profile and conservative investment policies.

Long-Term Obligation Program

Management of the County's long-term obligations is an important component of the County's financial management. The County Board of Supervisors adopted Board Policy B-65, Long-Term Obligations Management on August 11, 1998. This policy, along with the rating agencies' analysis, have been the foundation for the issuance and management of the County's long-term obligations. The Policy centralizes the issuance, information, and post-closure requirements for long-term obligations.

The Policy also includes guidelines on the amount of variable rate debt the County will have outstanding, review of outstanding obligations, and the aggressive refinance when economically feasible; guidelines for the administration of and compliance with disclosures and covenants; directives for good relations with the rating agencies and the investors of the County of San Diego's long-term obligations. A Debt Advisory Committee consisting of the Chief Financial Officer, Auditor and Controller/Assistant Chief Financial Officer, Treasurer-Tax

Collector and County Counsel reviews and makes recommendations to the County Board of Supervisors on the issuance of long-term obligations.

The County is also a conduit issuer on various financing, whereby the County issues tax-exempt long-term bonds on behalf of a qualifying entity that is responsible for all costs in connection with the bonds. Bonds issued under the conduit program are not considered to be a debt of the County. During Fiscal Year 2003-04, the County acted as conduit issuer for the San Diego Jewish Academy, which is owned and operated by an organization described in Section 501(c)(3) of the Internal Revenue Code. The Certificates of Participation were issued for the refinancing, acquisition, construction, improvement, furnishing and equipping of certain educational facilities including but not limited to classrooms, athletic facilities, multipurpose rooms, faculty and administrative offices, a library and related infrastructure improvements at the San Diego Jewish Academy, located at 11860 Carmel Creek Road.

Bond Ratios

Useful bond ratios to management, citizens, and investors are as follows:

Bond Ratios

	Fiscal Year 2001-02	Fiscal Year 2002-03	Fiscal Year 2003-04
Net Bonded Debt (in millions)*	$ 690.3	$ 1,191.8	$ 1,623.8
Net Bonded Debt per Capita	$ 237	$ 402	$ 538
Ratio of Net Bonded Debt to Assessed Value	0.32 percent	0.51 percent	0.64 percent

*Net Bonded Debt excludes Redevelopment Agency Revenue Bonds and is net of debt service reserves (estimated at $23.4 million in Fiscal Year 2004-05).

Financial Planning Calendar

Ongoing

Organizational Goals—The Board of Supervisors provides ongoing policy direction to the Chief Administrative Officer (CAO). The CAO, in conjunction with his Executive Team, reviews the County's mission, strengths, and risks to develop and refine the Strategic Plan which defines the County's long-term goals.

November–February

Five-Year Goals—The CAO, General Managers, and Chief Financial Officer (CFO) develop the Five-Year Financial Forecast of revenues and expenditures, and a preliminary analysis of key factors impacting this analysis. In coordination with the CFO, the Agency/Groups and their respective departments develop preliminary short- and medium-term operational objectives that contribute to meeting the Strategic Plan goals, and allocate the necessary resources to accomplish the operational objectives.

March–April

Preparation of Proposed Operational Plan—Agency/Groups and Departments plan specific objectives as part of the preparation of the Operational Plan. Objectives are clear and include measurable targets for accomplishing specific goals. The Operational Plan includes discussion of the proposed resources necessary to meet those goals, as well as a report of the accomplishments of the prior year.

May

Submission of the Proposed Operational Plan—The CAO submits a two fiscal year Proposed Operational Plan to the Board. The Board accepts the CAO's Proposed Operational Plan for review, publishes required notices, and schedules public hearings.

June

Public Review And Hearings—The Board conducts public hearings on the Operational Plan for a maximum of ten days. This process commences with Community Enhancement Program presentations.

All requests for increases to the Proposed Operational Plan must be submitted to the Clerk of the Board in writing by the close of public hearings. Normally, the CAO submits a Proposed Change Letter recommending modifications to the Proposed Operational Plan. Additionally, Board members may submit Proposed Change Letters.

Deliberations—After the conclusion of public hearings, the Board discusses with the CAO and other County officials as necessary the Proposed Operational Plan, requested amendments, and public testimony. Based on these discussions, the Board may modify the CAO's Proposed Operational Plan. The Board's deliberations are scheduled for one week and are generally completed by the end of June.

August

Adoption of Budget—Subsequent to completing deliberations, all Board approved changes are incorporated into the Operational Plan and are included in a Line-Item Budget format which contains the first year of the Plan for the Board's adoption. In addition to adopting the Line-Item Budget, by accepting the Operational Plan the Board approves in concept the second year of the Plan. The Board may also approve a supplemental plan resolution, reflecting final estimates of fund balance, property taxes, and the setting of appropriation limits.

Summary Of Related Laws, Policies, and Procedures

California Government Code

Government Code Sections §29000 through §30200 provide the statutory requirements pertaining to the form and content of the State Controller's prescribed Line-Item Budget.

Charter

Section 703.4—The Chief Administrative Officer (CAO) is responsible for all Agency/Groups and their departments and reports to the Board of Supervisors on whether specific expenditures are necessary.

Administrative Code

Sections 115–117—The CAO is responsible for budget estimates and submits recommendations to the Board of Supervisors.

Board Of Supervisors Policies

A-91 Mid-Year Budget Changes—restricts mid-year appropriations to responses to mandated or emergency issues only.

B-29 Fees, Grants, Revenue Contracts—provides a methodology and procedure to encourage County departments to recover full cost for services whenever possible.

B-51 Grants, Awards & Revenue Contracts—requires County departments to certify in writing that a proposed activity or project funded primarily by the State or federal government would be worthy of expending County funds if that outside funding were not available.

M-26 Legislative Policy—Long-Term Financing of County Government–calls on the Legislature to redress inequitable State funding formulas.

Administrative Manual

0030-13 Budget Program/Project Follow-Up—Sunset dates will be placed on programs intended to have limited duration, and related staff and other resources will not be shifted to other activities without the Board of Supervisors' approval.

0030-14 Use Of One-Time Revenues—One-time revenue will be appropriated only for one-time expenditures such as capital projects or equipment, not to ongoing programs.

0030-17 General Fund Reserve—This reserve would provide a sound fiscal base for the County's budget to meet the emergency requirements of extraordinary events.

0030-18 Transfer Of Excess Cash Balances To General Fund—This provides for excess bond proceeds from Joint Powers Agency activities to be transferred to County use.

0030-19 Revenue Match Limitations—Revenue matches will be limited to the mandated level unless clear justification is provided which results in a waiver of this policy by the Board of Supervisors.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Trust and Agency funds are custodial in nature and do not involve measurement of results of operations.

All proprietary funds, the pension trust fund and the investment trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity for the proprietary funds (i.e., total net assets) is segregated into net assets invested in capital assets, net of related debt, and restricted net assets on the County's Comprehensive Annual Financial Report. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Financial Accounting Standards Board Statements issued after November 30, 1989 are not applied in reporting proprietary fund operations.

Governmental fund types are accounted for using the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County considers this to be one year. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Revenues that are accrued include property taxes, sales tax, interest, and State and federal grants and subventions.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include: principal and interest on long-term debt is recognized when due; prepaid expenses are reported as current period expenditures, rather than allocated; and accumulated unpaid vacation, sick leave, and other employee benefits are reported in the period due and payable rather than in the period earned by employees.

Proprietary fund types, the pension trust fund, the investment trust fund, and agency fund are accounted for on the accrual basis of accounting. Their revenues are recognized in the period earned and expenses are recognized in the period incurred. There are no unbilled utility service receivables for the proprietary fund types.

General Budget Policies

Governmental Funds- An operating budget is adopted each fiscal year for the governmental funds. The annual resolution adopts the budget at the summary level of expenditures within departments. The County's financial statement, the Comprehensive Annual Financial Report (CAFR), is prepared using generally accepted accounting principles (GAAP). Budgets for the governmental funds are adopted and evaluated on a basis of accounting that is different from GAAP.

The major areas of differences are:

- The budgets for some County agencies ("blended component units") that are presented in the CAFR, such as the In-Home Supportive Services Public Authority, are not presented in this document. The Board reviews them separately.
- Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) are reported in the CAFR as budgeted expenditures in the year the commitment to purchase is incurred. In this document, however, year-end encumbrances at 6/30/2004 are not treated as expenditures of Fiscal Year 2003-04. For GAAP purposes in the fund financial statements of the CAFR, encumbrances outstanding at fiscal year-end are reported as reservations of fund balances and do not constitute expenditures and liabilities, because the appropriations for these commitments will be carried forward and the commitments honored in the subsequent fiscal year.
- Long-term capital lease obligations are not budgeted as an expenditure and source of funds in the year the asset is acquired. Under a GAAP basis, in the fund financial statements such obligations are included as an expenditure and source of funds in the year the asset is acquired.

- Loans and deposits to other agencies, if any, and their subsequent repayments are budgeted as expenditures and revenues, respectively. Under a GAAP basis in the fund financial statements, these items are not recognized as expenditures and revenues.
- On a budgetary basis, unrealized gains and losses on the fair value of investments are not recognized. For GAAP purposes, such gains or losses are recognized.

Proprietary funds- The Board of Supervisors approves an annual spending plan for proprietary funds. Although the adopted expense estimates are not appropriations, their budgetary controls are the same as those of the governmental funds. Because these funds collect fees and revenues generally to cover the cost of the goods and services they provide, their accounting and budgeting bases are closer to commercial models. Budgeting, like accounting, is done on the accrual basis and generally according to GAAP.

Some exceptions are:

- Certain funds are budgeted as governmental funds but are reported as proprietary funds; the most significant difference is that depreciation is not budgeted. Depreciation is not included in the budgets for the Sanitation and Sewer Maintenance Special Districts.
- Adjustments to inventory valuations are not budgeted.

All funds- Changes in reservation and designation of fund balance are budgeted as appropriations (expenditures) or revenues; for GAAP purposes, they are neither. Appropriations may be adjusted during the year with the approval of the Board of Supervisors; additionally, Group and department managers are authorized to approve certain transfers of appropriations within a department. Such adjustments are reflected in the final budgetary data as presented in the CAFR. Accordingly, the legal level of budgetary control by the Board of Supervisors is the department level.